

THE WEATHER — PARIS: Wednesday, mostly cloudy, Temp 44°F-51°F. LONDON: Wednesday, cloudy, Temp 4-10°C. 50°F. CHANNEL: Slight. ROME: Wednesday, overcast, Temp 10-14°C (50-55°F). FRANKFURT: Wednesday, partly cloudy, Temp 8-11°C (46-52°F). NEW YORK: Wednesday, cloudy, Temp 3-6°C (38-43°F).

ADDITIONAL WEATHER DATA — PAGE 22

INTERNATIONAL

Herald Tribune

Published with The New York Times and The Washington Post

No. 30,721

**

PARIS, WEDNESDAY, NOVEMBER 25, 1981

Established 1887



Crew members arriving Tuesday in Norway after being taken off the oil rig Transworld 58.

Oil Rig Adrift As Gales Hit The North Sea

From Agency Dispatches

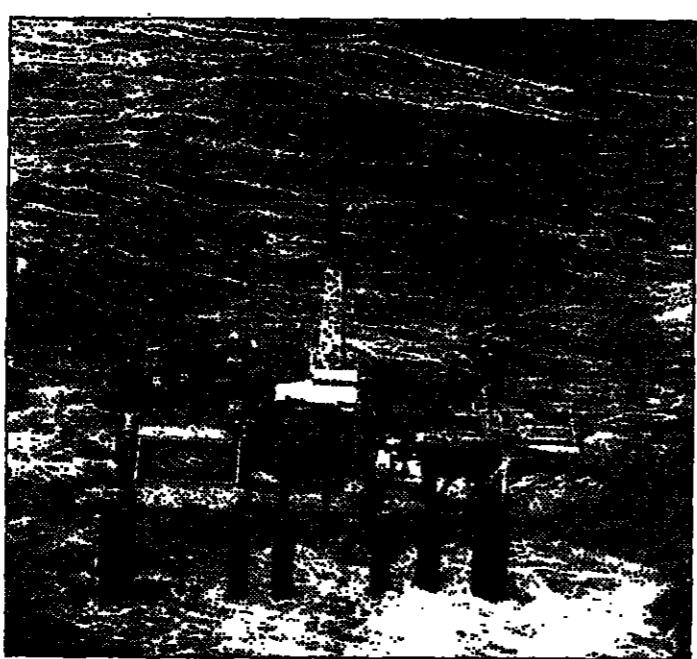
LONDON — Gale-force winds churned 40-foot waves through the North Sea on Tuesday, triggering widespread flooding in Denmark and Germany and setting a storm-battered American-operated oil rig adrift off the Scottish coast.

At least two persons were killed as the winds lashed ships in the area, and ferry services were severely hampered.

The oil rig, the Transworld 58, midway between Norway and Scotland, broke away from its anchors in waves 40 feet (12 meters) high. Hamilton Brothers, the British owners, said it was a floating rig and not a fixed one and would be taken in tow as soon as the weather improved. Forty-four men were taken off.

Thirty miles to the north, the Norwegian rig Phillips SS, with one of its anchors out of service, lost another in the storm but remained at its location, a spokesman for the owners, Phillips Petroleum Co., said. He said 18 of the 112 men aboard had been taken off.

The two rigs were in the same area where the Norwegian accommodation rig Alexander Kielland



The American-operated oil rig Transworld 58 adrift in the North Sea after breaking away from its anchors amid 40-foot waves.

was capsized in March last year with the loss of 123 lives.

In Denmark, 1,500 people were evacuated from their homes in and around the Jutland port of Esbjerg after a general flood alert.

In Hamburg, authorities closed the busy port for five hours but reopened it in the late afternoon when the water and winds subsided.

Bonn Meetings End With No Shift on Issues

From Agency Dispatches

BONN — Chancellor Helmut Schmidt and Soviet President Leonid I. Brezhnev ended talks Tuesday with little indication the two sides had budged from their positions on arms control or other East-West issues.

Spokesmen for both sides said they hoped the three days of talks had created an atmosphere leading to an improvement in East-West relations and concrete results in U.S.-Soviet arms negotiations due to begin Monday in Geneva.

But the two sides stuck by their public positions, with the West Germans supporting plans to deploy U.S. Cruise and Pershing-2 missiles if the Geneva talks fail to produce agreement by the fall of 1983.

There was also no sign that Mr. Brezhnev was prepared to accept U.S. proposals for eliminating medium-range nuclear missiles from Europe.

Mr. Brezhnev and Mr. Schmidt ended their fourth meeting late Tuesday, and afterward the Soviet leader told reporters that the efforts must be undertaken ... to secure peace."

"The climate of détente and trust must be restored," he said.

Before the final session of talks, Mr. Schmidt said he was convinced that the Soviet leadership failed to understand the views and intentions of the Reagan administration.

Mr. Schmidt told members of his Social Democratic Party that he had spent "a significant part" of his talks with Mr. Brezhnev trying to convince him of U.S. good will.

"It is more than clear that the Soviet leadership still cannot properly evaluate the intentions of the American leadership and its leaders," he said. "We have, I repeat, tried for our part to clear away some Soviet doubts about the credibility of the American position and of the readiness for negotiations of the American government."

Angry exchanges between West

German spokesman Kurt Becker and Soviet spokesman Leonid Zamyanin on Tuesday reinforced the impression that the two leaders had made little progress.

Mr. Becker said at a joint press conference that the chancellor tried hard at a private meeting with the Soviet leader Monday night to persuade him that President Reagan was seriously interested in disarmament negotiations.

"It has become clear that the Soviet leadership cannot correctly assess the intention of the American administration," Mr. Becker said.

Mr. Zamyanin, a senior Communist Party official who regularly acts as spokesman for Mr. Brezhnev on his foreign trips, immediately contradicted Mr. Becker. "If the West German side has drawn such a conclusion from the talks, then it is wrong in its assessment of the Soviet position toward the United States," he said.

His icy comment was seen as confirmation that Mr. Schmidt's efforts to act as interpreter of U.S. policy made little impression on his Kremlin guests.

Mr. Schmidt had met four times with Mr. Brezhnev since the president arrived in Bonn late Sunday for his first visit to the West since the Soviet intervention in Afghanistan in December, 1979.

The meetings, with the party leaders, including the Social Democratic chairman, former Chancellor Willy Brandt, took place at Schloss Gymich, the government guesthouse 18 miles (30 kilometers) from Bonn where Mr. Brezhnev was staying.

Bavarian Premier Franz Josef Strauss, chairman of the Christian Social Union and unsuccessful candidate for chancellor in 1980, told Mr. Brezhnev that U.S. policy under Mr. Reagan was more predictable than it had been under his predecessor, Jimmy Carter.

The Christian Democratic chairman, Helmut Kohl, who met with Mr. Reagan in Washington last month, said he advised the Kremlin leader that the United States wanted to take firm measures toward reducing the level of weaponry. He said he called on the Russians "to take a step toward the U.S.A."

Offer on Missiles

Mr. Reagan has offered to forgo deployment of Cruise and Pershing-2 missiles, set to begin in late 1983, if the Russians dismantle their SS-20 rockets already in place.

Mr. Brezhnev has rejected Mr. Reagan's offer because it leaves untouched French and British nuclear forces as well as U.S. land, air and sea elements based near the borders of the Soviet Union.



Chancellor Helmut Schmidt offered his hand Tuesday in Bonn to President Leonid I. Brezhnev. Watching were Foreign Ministers Andrei A. Gromyko, center left, and Hans-Dietrich Genscher.

Pravda Cuts Schmidt Afghanistan Remarks

The Associated Press

MOSCOW — Pravda on Tuesday published West German Chancellor Helmut Schmidt's dinner toast for President Leonid I. Brezhnev, but left out his references to Afghanistan and to Soviet superiority in medium-range missiles.

The text, labeled as "full" by the daily Tass press review, was published on page 2 of Pravda, along with the full speech made by Mr. Brezhnev during a dinner in Bonn on Monday night.

Pravda left out a passage in which Mr. Schmidt said that Third World countries "expect us to respect their political and cultural independence. This also applies to the wish of the Afghan people for an independent and nonaligned Afghanistan, free from foreign troops."

The Soviet Union has about 85,000 troops in Afghanistan.

Also omitted was Mr. Schmidt's assertion that the Soviet Union, by deploying SS-20 missiles, had upset the military balance in Europe, thus prompting the Western alliance's decision to modernize its own medium-range capability.

The Soviet Union insists that there is a "rough parity" between East and West in medium-range missiles.

Pravda also cut out Mr. Schmidt's phrase that "we share President Reagan's wish that all medium-range missiles in Europe be dispensed with on both sides," and a reference to the Soviet Union's use of foreign currency, "which is needed, for instance, for the purchase of grain."



A customer found the U.S. passport office in San Francisco closed after President Reagan ordered federal agencies to cease all nonessential operations during a dispute over funding.

Liberals to Try In Belgium to Form Cabinet

Reuters

BRUSSELS — Willy De Clercq, the Flemish Liberal leader, accepted King Baudouin's request Tuesday to form a new government and said he would try to set up a center-right coalition grouping the Liberals and Social Christians.

He said that he had accepted because Belgium urgently needed a government following the inconclusive general election on Nov. 8.

Mr. De Clercq, 54, a former finance minister, said that he would meet the heads of four political parties soon to see whether they would be ready to join in a coalition.

The four parties are his own Flemish Liberals, the French-speaking Liberals of Jean Gol, the Flemish Social Christians of Leo Tindemans and Paul Van Den Boeynants' French-speaking Social Christians.

Mr. De Clercq's first problem is to convince the Social Christians to join the coalition. According to political sources they are tempted to stay out of the government after their heavy losses in the elections.

The Flemish Liberal Party and the French-speaking Liberal Party made the most gains in the parliamentary elections. Mr. De Clercq was asked by the king to form a new government after former Prime Minister Wilfried Martens, a Flemish Social Christian, turned down a similar request.

A member of the European Parliament, Mr. De Clercq has been a strong advocate of more stringent economic policies to tackle Belgium's severe economic problems.

His party and the French-speaking Liberals together command 52 seats in the Chamber of Deputies, ranking third after the Social Christians and the Socialists, which each have 61 seats.

Repeated Disagreements

Both the Flemish and the French-speaking wings of the Social Christians lost seats during the recent elections. Since October of last year, Belgium had been governed by center-left coalitions of Social Christians and Socialists.

Repeated disagreements within these coalitions had prevented coherent measures to deal with the nation's soaring public sector deficit, heavy balance of payments deficit and record unemployment.

Belgium's previous government, a Social Christian-Socialist coalition headed by Flemish Social Christian Mark Eyskens, collapsed in September after a disagreement over Socialist demands for more state aid to the Walloon steel industry.

Reagan's Victory on Funding Could Be Politically Costly

By Hedrick Smith

New York Times Service

WASHINGTON — In his effort to cut the federal budget, President Reagan has switched from his long and careful courtship of Congress to the tactic of confrontation and has won a short-run political victory that may also have a long-run political price.

With his advisers convinced that the public still strongly supports his efforts to curb federal spending and that the president needs to get back in control of the budget process, Mr. Reagan on Monday not only vetoed what he called a "budget-busting" interim funding resolution, but also technically "shut down" part of the government.

After a series of political setbacks this fall, ranging from worsening economic forecasts to embarrassing revelations about his official family, Mr. Reagan's actions were intended to take the offensive and put the focus back on the budget.

The actions had Democrats complaining about political "theatrics." And some Republicans angrily contended that they had been misled into believing that

the White House would accept the measure adopted by Congress on Sunday. Others claimed that White House had lured Congress into passing the spending measure to set up a confrontation that would let Mr. Reagan use the legislature as a whipping boy.

In using these tougher tactics, Mr. Reagan not only runs the risk of making some members of Congress, including leading Republicans, angry now, but also of creating

ing scars that will hamper his future efforts at cutting the budget — for 1983 and 1984, as well as 1982. But the White House felt it was necessary to take the risk, as much to show its muscle as to get the particular spending levels it sought.

For nine months, Mr. Reagan has shown Congress his genial side, joking with members, swapping stories and skillfully wooing their votes. On Monday, Mr. Reagan showed Congress his other side when he turned to the tough veto policies that he used so extensively as governor of California.

3 Cambodian Resistance Groups Move Toward Coalition Formula

By William Branigan

Washington Post Service

BANGKOK — Three Cambodian groups resisting the Vietnamese occupation of their country have moved closer to forming a loose coalition government that would allow the non-Communist elements to receive foreign arms aid, a leading Singaporean official said here Tuesday.

Sinnathep Rajaratnam, Singapore's deputy prime minister in charge of foreign affairs, said at a news conference that leaders of the Communist Khmer Rouge, the anti-Communist Khmer People's National Liberation Front and a group led by Prince Norodom Sihanouk, the former Cambodian head of state, had accepted a Singaporean proposal that each faction retain its own identity under the coalition government.

Mr. Rajaratnam said Singapore would be willing to give arms aid to such a coalition, but he stressed that "other democratic countries" should also contribute if they want to see a "non-Khmer Rouge government" replace the current Vietnamese-installed regime in Phnom Penh.

Mr. Rajaratnam's remarks and a statement issued by Singapore's embassy in Bangkok marked the first time that a member of the As-

sembly of Southeast Asian Nations (ASEAN) had publicly expressed willingness to aid Cambodian resistance groups militarily.

A Western diplomat said that the resistance signaled "an obvious turning point," but that it was not yet clear whether Singapore's position was endorsed by all four other members of ASEAN — Indonesia, Malaysia, the Philippines and Thailand.

Explaining his written statement, which calls for a coalition to exert "military pressure" on Vietnam to withdraw its troops from Cambodia, Mr. Rajaratnam said the other ASEAN countries had given Singapore "a mandate to pursue a coalition government."

Singapore is currently chairman of ASEAN.

In addition, although Mr. Rajaratnam indicated that ASEAN would support a military aid for the non-Communist Cambodian groups from Western countries, including the United States, Washington has not shown any sign of dropping its opposition to such assistance.

In Tam Prince Sihanouk's representative in Bangkok, Mr. Son Sam, and two Khmer Rouge leaders, Khein Sampan and Ieng Sary, had met individually and jointly over the past two days with

the second of two parts of the Euromarkets supplement is on Page 75-165. The first part appeared Tuesday.

INSIDE

Business Overseas

The Senate votes to soften the provisions of the Foreign Corrupt Practices Act because American firms claimed they have been losing business abroad as a result of the law.

Mr. Wirthlin said, "The president had to send a signal to Congress that he was determined to control the budget process."

The mood in Congress was so negative that Robert H. Michel of Illinois, the House Republican leader, was eager to have members leave for the Thanksgiving recess.

"They're all hot now," he said. "You've got to let them cool off."

Sen. Mark O. Hatfield, Republican of Oregon, chairman of the Senate Appropriations Committee, said he was offended and outraged at the White House allegation that the congressional measure exceeded the president's target.

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats in Congress professed shock at the president's tactics, they will help him on the hustings, said Richard Wirthlin, Mr. Reagan's pollster. "There is still very strong public support for reducing government spending."

Different Views

Although both Republicans and Democrats

Israeli Cabinet Facing Dilemma On Reply to 4 European Nations

By William Claiborne
Washington Post Service

JERUSALEM — A statement by four European countries linking their participation in a Sinai peacekeeping force to peace initiatives that Israel has already rejected has created a dilemma for the government of Prime Minister Menachem Begin just as his nation is apparently nearing completion of a strategic cooperation agreement with the United States.

Noting the U.S. State Department's acceptance Monday of the European declarations, Israeli officials said Tuesday that they expect the Reagan administration to begin applying pressure on Mr. Begin to drop his objections and allow the formation of the U.S.-sponsored peacekeeping force, which is supposed to patrol the Sinai when Israeli forces complete

their withdrawal next April 25.

But when the Israeli Cabinet meets on Sunday to decide whether to disqualify Britain, France, Italy and the Netherlands from the force, it will be doing so

NEWS ANALYSIS

in the context of warnings from Mr. Begin that public "contradictions" of the Camp David peace process rule out participation in the Sinai force.

While the Cabinet could choose to focus its attention only on the relatively innocuous mutual declaration by the four European nations and ignore the accompanying statements, Israeli government sources said that would not be case.

"We are not singling out this document or that document. The

government will consider the whole thing and give equal weight to all the statements," an official said.

Given that constraint, Israeli sources said, it will be difficult for the Cabinet to find a way to paper over the offensive clauses in the four nations' accompanying declarations that specifically reaffirm the Venice Declaration of June, 1980, and its tenet that the Palestine Liberation Organization must be involved in a comprehensive peace agreement.

The only vaguely objectionable clause in the original declaration by the four nations stated that joining the force will not exclude them from participating in another peace arrangement, meaning one outside the Camp David framework. Drafted in close coordination with the United States, that declaration is understood to have been acceptable to Israel as recently as Sunday.

Even a supplementary declaration issued Monday by the 10 European Economic Community nations that contained a reference to Palestinian self-determination conceivably could have been judiciously tolerated by the Cabinet in the face of intense U.S. pressure, Israeli sources suggested.

But the statement made Monday by Britain, France, Italy and the Netherlands flew in the face of repeated Israeli warnings made since Nov. 4 that any official mention or promotion of peace initiatives that compete with the Camp David accords would be enough to disqualify the European nations from being part of the Sinai force.

Low-Key Reaction

Israel's official reaction to the European statements has been relatively low-key, apparently in anticipation of attempts by the Reagan administration to find a compromise solution to the Israeli-European standoff.

The only official reaction to the EEC statements was a Foreign Ministry statement that the Cabinet will "decide" on European participation in the Sinai force and that the EEC declarations "would seem to be in contradiction to the Camp David agreements."

While no Israeli officials were willing publicly to acknowledge a link between the limited Israeli response and the negotiations on U.S.-Israel strategic cooperation, they conceded that the talks are at a critical stage. Defense Minister Ariel Sharon is scheduled to visit Washington at the end of the month to meet with U.S. Defense Secretary Caspar W. Weinberger.

Now the main obstacles have been addressed essentially by switching the basis of the union from a traditional coalition to a structure that more closely resembles a "government of national unity" of a nation at war, diplomatic sources said.

Tuesday's statement said the three groups "accepted a Singapore proposal, supported by Thailand, that the coalition government of Democratic Kampuchea to be established should, at this juncture of the struggle, be one in which each faction would retain its identity and be free to propagate its own distinctive political program and philosophy for the future of Cambodia."

The statement said Singapore also proposed that "this loose coalition government" consist of a head of state or president, a prime minister, a deputy prime minister and three ministers representing each of the three groups. The three ministers would be responsible for coordinating such matters as defense and information.

Singapore further proposed that if the Vietnamese withdrew, the coalition would "automatically dissolve" to pave the way for a new government chosen under elections supervised by the United Nations.

Africans Ask U.S. Aid

WASHINGTON (Reuters) — The Organization of African Unity has asked the United States to aid the peacekeeping force that the OAU is sending to Chad, the State Department says. A department spokesman on Tuesday said the request was made by Kenyan President Daniel Arap Moi in a letter to President Reagan.

Plan Offered On Cambodia

(Continued from Page 1)

doom efforts to gain popular support in Cambodia. He therefore has put forward tough conditions for joining a coalition, insisting on controlling a majority of government portfolios, including the premiership, and demanding the self-exile of "tainted" Khmer Rouge leaders.

Now the main obstacles have been addressed essentially by switching the basis of the union from a traditional coalition to a structure that more closely resembles a "government of national unity" of a nation at war, diplomatic sources said.

Tuesday's statement said the three groups "accepted a Singapore proposal, supported by Thailand, that the coalition government of Democratic Kampuchea to be established should, at this juncture of the struggle, be one in which each faction would retain its identity and be free to propagate its own distinctive political program and philosophy for the future of Cambodia."

The statement said Singapore also proposed that "this loose coalition government" consist of a head of state or president, a prime minister, a deputy prime minister and three ministers representing each of the three groups. The three ministers would be responsible for coordinating such matters as defense and information.

Singapore further proposed that if the Vietnamese withdrew, the coalition would "automatically dissolve" to pave the way for a new government chosen under elections supervised by the United Nations.

The dilemma facing Mr. Begin on Sunday will be how to express Israel's indignation over the EEC statements, which are viewed here as a result of Arab pressure, without worsening U.S.-Israel relations and possibly jeopardizing the agreement on strategic cooperation.

The Cabinet could find a way around the problem by deciding officially to regard the four nations' supplementary documents as purely internal statements for the benefit of their respective parliaments. But if it chooses to treat the statements as official documents, as Israeli officials indicated it would, then the Cabinet would appear to leave itself with little room for maneuvering.

Australia Offers Troops

CAIRO (Reuters) — Australia told Egypt on Tuesday that it was ready to join the peacekeeping force, the Foreign Ministry announced. Colombia, Fiji, Uruguay and the United States have also promised to contribute to the force.



A B-52 drops its load of 500-pound live bombs on the western desert in Egypt.

B-52 Bombing Display Ends U.S. War Games in Egypt

The Associated Press

WADI NATRUN, Egypt — American B-52 bombers, flying nonstop from the United States, hit targets Tuesday in the western desert at the end of the Egyptian phase of the Bright Star war games that cost more than \$50 million.

In what was believed to be the biggest public overseas display of U.S. fire power since the Vietnam war, the six B-52s joined U.S. A-10 Thunder-

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 500-pound bombs on their targets.

United Press International

bolts, F-16 fighters and Cobra helicopters in attacking targets in the desert 72 miles (115 kilometers) northwest of Cairo.

The B-52s refueled once over the Atlantic in their 15-hour, 7,500-mile flight from Minot and Grand Forks bases in North Dakota. Flying in single file, at only 600 feet over the desert, they each dropped 27, 50

Brady Leaves Hospital, Says 'The Bear Is Back'

Washington Post Service

WASHINGTON — Declaring that "the bear is back," White House Press Secretary James S. Brady has left the hospital almost eight months after an attempted presidential assassination left him near death with a bullet in his head.

Demonstrating the dramatic progress he has made since then, Mr. Brady on Monday walked slowly but triumphantly out of the main entrance of George Washington University Hospital. The faint scars of several operations crossed Mr. Brady's head, and his left arm, still paralyzed by the injury, was supported by a sling.

But his high spirits were reflected in an outfit of Kelly green sweater and blue-and-green plaid pants. By his side was his wife, Sarah, who wore a pin showing a bear reading a newspaper with the headline, "The Bear Is Back," a reference to Mr. Brady's nickname.

Dr. Arthur Kobrine, the neurosurgeon who performed the brain surgery after the March 30 shooting, shook Mr. Brady's hand as he was helped into a wheelchair and lifted into a specially equipped van that carried him home to Arlington, Va., a suburb of the capital.

Although Mr. Brady did not speak during his exit, he greeted reporters, the crowd and the high school band with a thumbs-up signal of appreciation. And White House aides distributed a statement by the press secretary. "Mr. Brady's first since the shooting.

The 41-year-old press secretary said that "we rejoin our friends and neighbors with a true spirit of optimism for the future. They say, 'The bear will be back.' I am here to say, 'The bear is back.'"

He said he was "saddened" to say goodbye to the hospital staff "whose dedication, competence and refusal to give up have made today possible." And he thanked "so many wonderful people throughout the country and around the globe," adding, "Your prayers and words of support and encouragement were the greatest source of strength and courage I have ever known."



White House Press Secretary James S. Brady, with his wife at his side and aided by a physical therapist, leaves George Washington University Hospital in Washington.

Haig Gives Mexico Ratified N-Pact Documents

By Michael Getler

Washington Post Service

MEXICO CITY — In a move welcomed by the Mexican government, U.S. Secretary of State Alexander M. Haig Jr. has delivered the final documents committing the United States to a treaty that would make Latin America a zone free of atomic weapons.

But Mr. Haig, who was here on a 24-hour visit, was much less likely to win Mexican support for his efforts to curb a buildup of conventional arms in Nicaragua, including the possible shipment of MiG fighters from the Soviet Union.

After the first private meeting here Monday between Mr. Haig and Mexican Foreign Minister Jorge Castaneda, Haig spokesman Dean Fisher said the session reflected the common preoccupation of both countries with developments in Central America, particularly Nicaragua. Although the two countries do not have identical views, Mr. Fisher said, there was "a sense of mutual concern in the search for ways to deal with the problems of Nicaragua."

The Reagan administration has said there is a danger that Nicaragua will become another Cuban-style armed camp spreading leftist revolution through Central America. But Mexico and some other nations fear that the United States will intervene militarily in Nicaragua and perhaps, in their view, add to the turmoil in the region.

Mexican sources reported that Mr. Castaneda told Mr. Haig again of Mexico's opposition to any U.S. military intervention.

Mr. Haig's visit here, while officially the result of an agreement to set up a routine bilateral forum for discussion of all policy issues between the two countries, also reflects the contradictions in current U.S.-Mexican relations.

Greeted by Mr. Castaneda on his arrival, Mr. Haig stressed the "remarkable" and "unprecedented" level of personal relations, four meetings alone this year between Presidents Reagan and President José López Portillo and three visits by Mr. Haig to Mexico.

Yet Mexico, an oil supplier and a key regional power in Latin America, also offers backing and low-cost oil to Nicaragua, supports leftist groups opposing the U.S.-backed government in El Salvador and maintains good relations with Cuba.

The ratification documents de-

livered here Monday by Mr. Haig mark completion of U.S. participation in the Tlatelolco treaty, a multilateral attempt begun in 1967 to ban nuclear weapons in Latin America. The U.S. Congress last week gave its advice and consent to the treaty, under which the United States agrees "not to test, produce or deploy nuclear weapons in Latin America."

Starting Point

Mr. Haig said the measure also might serve as a good starting point for increased U.S.-Mexican cooperation in developing Mexico's fledgling nuclear power program.

The treaty has been signed by all Latin American countries except Cuba, but Chile, Argentina and Brazil have not yet ratified it.

Talking with reporters on his plane en route from Washington, Mr. Haig said he would use this visit to try to "clarify and bridge" the views between the two countries.

Asked if he would ask Mexico to use its influence in Nicaragua to help what Mr. Haig describes as the "drift towards totalitarianism" in that country, he said: "That's a decision for them to make. It's not for us to come down here and wag a finger at their basic approach. But we do know that Mexico

shares our basic values, the desire for peaceful change, and that's a pretty sound platform."

Reagan administration officials have said privately that they believe a number of Latin American governments are becoming frightened by the developments in Nicaragua.

Mr. Haig confirmed reports that Nicaraguan pilots were being trained in Eastern Europe to fly MiGs. He said MiGs had not arrived in Nicaragua but charged that there was some evidence that MiGs destined for Nicaragua may have arrived in Cuba. He said, however, that those planes could be for some other purpose.

"With a little more work," said

Venezuelan President's Popularity Is at a Low

By Juan de Onis

International Herald Tribune

CARACAS — Opinion polls show that President Luis Herrera Campins is at a low point of popularity midway through his five-year term and that the opposition Democratic Action Party would win in a landslide if elections were held now.

Although the next presidential election is two years off, in December, 1983, both major parties are bubbling with pre-electoral fervor. This is not good for President Herrera, who cannot run for re-election.

Mr. Herrera has been an activist in foreign policy, traveling extensively in Third World and OPEC countries. But foreign policy is not where political contests are won in Venezuela. The administration has experienced serious political erosion because of sharp increases in the cost of living, a recession that is causing rising unemployment and attempts to increase rates for public services that are often unsatisfactory.

Many people feel that Mr. Herrera has failed to translate his campaign promise to give a "human face to development" into effective programs despite an enormous inflow of funds from oil exports, which rose to \$18 billion a year after he took office in 1979.

With polls showing that in Caracas and the state of Zulia, two key electoral districts, the governing Social Christian Party would not get 20 percent of the vote, the president is facing strong criticism from within his own party. The critics are mainly backers of for-

mer President Rafael Caldera, who see this senior statesman as the only presidential candidate who can avert a disaster at the polls for the Social Christian Party.

The Democratic Action Party, a social democratic party that was in disarray after losing the election in 1979, is confident of a comeback. Jaime Lusinchi, 54, a physician-turned-politician who is the party's secretary-general, is virtually assured of the presidential nomination and has the blessing of former President Carlos Andres Perez, who left office in 1979. Mr. Perez is active politically, but under Venezuela's constitution, he cannot

run again until two presidential periods have passed. That would be in 1988.

If the Democratic Action Party does recapture the presidency, the Sixth National Plan (1981-85), drafted and initiated under a Social Christian government, would be completed under an Action Party administration. That is what happened, in reverse, with the Fifth National Plan.

Experience under the fifth plan indicated that a change of administration in midstream does not significantly alter planned public spending, as long as the resources are available. The major projects go forward with earmarked financing, such as the state oil corporation's development plans, electrification and the Caracas subway.

The key question on the sixth plan is whether the estimate of \$97.6 billion in oil sales over the five-year period is achieved. Taxes and royalties paid by the national oil industry provide 70 percent of fiscal revenue. A drop in oil income would squeeze budget incomes, which would probably lead to cutbacks in low-priority programs and projects that can be stretched out.

With an election approaching, it would be difficult for the Social Christian administration to obtain borrowing authority beyond the \$4.2 billion already obtained. This level of borrowing is the basis for one option in the sixth plan, which foresees \$41 billion in non-oil investment. The other option would require an additional \$6 billion in borrowing authority, which Congress has not approved.

The warrant charged Mr. Diaz with murder in the deaths of 11 patients at the Community Hospital of the Valleys in Petén and of one patient at the San Gorgonio Pass Hospital in Banning, between March 30 and April 25.

Riverside County sheriff's deputy Renee Shoszak said Mr. Diaz was taken into custody Monday in Apple Valley, Calif., about 70 miles (112 kilometers) east of Los Angeles, booked into the central jail at Riverside and held without bail.

The warrant charged Mr. Diaz with murder in the deaths of 11 patients at the Community Hospital of the Valleys in Petén and of one patient at the San Gorgonio Pass Hospital in Banning, between March 30 and April 25.

With an election approaching, it would be difficult for the Social Christian administration to obtain borrowing authority beyond the \$4.2 billion already obtained. This level of borrowing is the basis for one option in the sixth plan, which foresees \$41 billion in non-oil investment. The other option would require an additional \$6 billion in borrowing authority, which Congress has not approved.

This is a change in tactics by Mr. Herrera, who came into office attacking corruption under the former administration of Mr. Perez and for the first two years kept his distance from Democratic Action.

For the remainder of his term, Mr. Herrera may get more support from the opposition on basic legislative issues of national interest.

Bowing to President on Pentagon's Budget, Congress Proves to Be Soft Before Big Guns

By George C. Wilson

Washington Post Service

WASHINGTON — For a while, it looked good for Rep. Joseph P. Addabbo, Democrat of New York, and those others in Congress who wanted to slash the Pentagon budget.

Then, suddenly, the same President Reagan who had been rattling sabers and promising to raze America picked last Wednesday to make his big disarmament speech.

"Cost me 80 votes," Rep. Addabbo said of the speech, trying to explain why his amendments to kill the B-1 bomber and MX land-based missile blew up on the pad Wednesday night, only hours after Mr. Reagan had offered to forgo deployment of medium-range missiles in Europe if the Soviet Union would do likewise.

Approach to Defense

"When you look at the record, the House usually goes along with the president on the big weapons. When the last president was against the B-1, they were against the B-1. When this president is for the B-1, they are for the B-1."

What does this say about Congress' approach to the key questions of national defense?

"Congress doesn't know what to do about national defense," Rep. Aspin said.

The House Democratic leader, James C. Wright Jr. of Texas, agreed in a separate interview that the House would much rather reduce spending through general

percentage reductions in a big, faceless account than zero in on highly visible individual programs with vocal constituencies. This is true of both civilian and military budgets, he said.

Another reason across-the-board cuts are easier to achieve in the Pentagon budget than specific ones is the big guns that the Pentagon can roll up when its weapons come under attack. The arguments over Mr. Reagan's proposals for redressing the strategic balance showed that over the last several weeks.

Heavy Flak for B-1

No sooner had the president made his proposals Oct. 2 than John G. Tower, chairman of the Senate Armed Services Committee, attacked them. The Texas Republican, normally a symbol of Pentagon strength, said that the president's recommendation to stuff the new MX into existing missile silos would not provide the reduced vulnerability everybody agreed was needed.

His House counterpart, Rep. Melvin R. Price, Democrat of Illinois, warned that the president's

recommendation to build 100 B-1 bombers would run into heavy flak in Congress. Sen. Ernest F. Hollings, Democrat of South Carolina, who also usually votes with the Pentagon, said that the nation could not afford to build the B-1 as well as the Stealth bomber and should scrap the B-1 proposal.

As the debate heated up, Defense Secretary Casper W. Weinberger and CIA Director William J. Casey wrote Congress a letter assuring that the B-1 would be able to penetrate the Soviet Union well into the 1980s. Mr. Reagan called key legislators, telling them that he needed the new weapons so he could negotiate arms reductions with the Russians from a positive of strength.

Votes for making big cuts in the Pentagon budget and killing the B-1, MX and other weapons melted under all this heat. The doubting lawmakers evidently felt unguided and undriven, and did not want to look weak on defense at a time when the polls indicated that the American people wanted to spend whatever was necessary to keep up with the Russians.

U.S. Navy Secretary Supports Allen On Intention to Hand Over Money

By Edward T. Pound

New York Times Service

WASHINGTON — Navy Secretary John F. Lehman Jr. has said that he signed a statement supporting Richard V. Allen's contention that Mr. Allen intended to surrender to the government the \$1,000 given to him by a Japanese magazine.

Mr. Lehman said Monday in a telephone interview that he was in Mr. Allen's office on either Jan. 21, the day Mr. Allen received the cash, or a day or two later. The Navy secretary said Mr. Allen, President Reagan's national security adviser, expressed "chagrin and amazement" that the Japanese had handed him the cash.

"He said he had stuck it in a safe to turn it over to security," meaning government authorities, said Mr. Lehman, who said that he had provided a signed statement to Mr. Allen recalling their conversation of January.

Mr. Lehman is a close friend of Mr. Allen, who supported him for the Navy post.

Mr. Lehman said he had provided the statement, dated Nov. 16, to Mr. Allen after he "saw this flap" developing in the news media. He acknowledged that he had not given the statement to the FBI and had not been questioned by the bureau. Mr. Lehman said his statement was not under oath, but that he would swear to his account if called to testify.

This tendency toward "consensus politics" grows out of the confrontation with the military dictatorship of Col. Marcos Perez Jimenez that ended in his overthrow in 1958, when all the parties, the labor unions, most business organizations and the Roman Catholic Church made common cause in a broad national resistance front.

Venezuelan political leaders attach importance to preserving the democratic system from the dangers of partisan conflicts that paralyze the government and invite military intervention.

The reaction of Democratic Action Party leaders to the evident weakness of President Herrera in relation to the public and his party has been to initiate talks with the president on the budget, foreign affairs and other areas of potential conflict between the executive and Congress.

This is a change in tactics by Mr. Herrera, who came into office attacking corruption under the former administration of Mr. Perez and for the first two years kept his distance from Democratic Action.

For the remainder of his term, Mr. Herrera may get more support from the opposition on basic legislative issues of national interest.

Pope Names Cuba Bishop

The Associated Press

VATICAN CITY — Pope John Paul II has named Monsignor Jaime Lucas Ortega y Alamillo as the new archbishop of Havana, the Vatican announced Tuesday. He succeeds Archbishop Francisco Ricardo Oviedo Fernandez who resigned for health reasons.

Reagan, after three women representatives of the magazine Shufunotomo interviewed the president's wife on Jan. 21 in the White House.

According to an administration official, Mr. Webster made two telephone calls to Mr. Allen, not one as previously reported. In the first call, in September, Mr. Webster called to arrange for FBI

agents to interview Mr. Allen, the official said. He said Mr. Webster made a second call to Mr. Allen two weeks ago, reportedly telling Mr. Allen that a Japanese newspaper would be printing a story about the investigation.

No Comment by Webster

As reported by The New York Times on Sunday, Mr. Webster also was said to have told Mr. Allen that the Japanese had "corroborated" Mr. Allen's contention that only \$1,000 had been transmitted.

Mr. Webster has not commented on his contacts with Mr. Allen. The Justice Department generally considers it improper for investigative authorities to discuss cases with those being investigated.

Meanwhile, Mr. Allen reaffirmed Monday that he had sold his consulting business, Potomac International Corp., in January, 1981, although the financial disclosure statement he filed in January at the White House showed that he had sold the business in January, 1978.

"It was a dumb mistake," Mr. Allen said, responding to a query by telephone noting that he had also dated the form Feb. 19, 1980. Mr. Allen said that he "detected the error" 10 days ago and had so informed Fred F. Fielding, the counsel to the president.

With controversy swirling around him, Mr. Allen and his supporters at the White House were said to have been buoyed by the news that Mr. Lehman had disclosed his January meeting with Mr. Allen.

The Ultimate

Beverly Wilshire Hotel
Beverly Blvd. at Rodeo Dr., Beverly Hills, Calif. 90212
(213) 275-4282 Telex 698-220
Represented by IRI The Leading Hotels of the World Member of Preferred Hotel Worldwide

The whole is greater than the sum of its parts.

A single package of services specifically tailored to the needs of the individual client is certainly greater than the sum of several separate proposals. Deutsche Bank, with its comprehensive knowledge in all areas of busi-

ness, is uniquely equipped to find just the right solution to your problems with appropriate flexibility.

Come to Deutsche Bank and ask our experts.

Deutsche Bank
A century of universal banking



Central Office Frankfurt am Main/Düsseldorf, Branches abroad: Antwerp, Acuñón, Barcelona, Brussels, Buenos Aires, Hong Kong, London, Madrid, Milan, New York, Paris, São Paulo, Tokyo, Tel Aviv, Tel Aviv, Istanbul, Johannesburg, Lagos, Mexico, Nairobi, Osaka, Peking, Rio de Janeiro, San José, Santiago, Sydney, Tehran.

Reagan's Budget Circus

It's great political theater. Here is Congress, undisciplined and ill-informed, ever ready to waste money at the drop of a campaign contribution. And there is President Reagan, a tough man elected to do the tough job of curbing Big Government. In the last act, our hero vetoes a bloated spending bill and makes it stick, teaching Congress a lesson in the value of the taxpayer's buck.

Life, alas, is less satisfying than theater. Reagan is likely to triumph in this largely symbolic fight over 1982 appropriations. But \$2 billion up or down in a \$700-billion budget can't cure the nation's economic troubles. A carefully engineered political victory will only obscure the fact that Reagan has yet to produce an economic policy with much chance of success.

An issue is a resolution to allow government spending at specified rates until Congress finishes the 1982 budget. In September, Reagan asked for \$8 billion in cuts on top of the budget reductions voted by Congress during the summer. The cuts were needed, he asserted, to hold down the deficit. When congressional Republicans balked, Reagan said that he would split the difference and settle for \$4 billion.

That is just what the leadership says Congress gave him. The president says he sees only \$2 billion in cuts, so he vetoed the inter-

im spending measure. The veto worked. Congress has backed down, continuing current spending levels only through Dec. 15 rather than July 15.

But minor fiddling with the budget can't change some grim economic realities. The economy is in recession. How long the downturn will last or how severe it will be is unknown. It is clear, though, that the president's script for recovery is not being followed. Interest rates are down a bit, but not enough to reflect any real optimism about inflation. Business will get big breaks from the Reagan tax program, yet stock prices and corporate spending plans don't show confidence in the future.

The pessimism is understandable. The president's tax cut was large enough to guarantee big deficits, yet poorly designed to encourage savings and investment. His budget cuts are large enough to hurt the poor and the cities, but don't touch middle-class entitlements or wasteful defense spending. Reaganomics looks ever more like an excuse to consolidate the fortunes of Reagan's wealthy allies in the West and South.

In truth, this confrontation with Congress amounts to little more than a diversion. What is needed is an economic program with content; circuses are no substitute for bread.

THE NEW YORK TIMES

Safer Nuclear Plants

The mix-up at the Diablo Canyon nuclear reactor, in which reinforcements intended to prevent earthquake damage were installed in the wrong places, has had the salutary effect of directing attention to the Nuclear Regulatory Commission's ability to guarantee the safety of nuclear power plants.

In the 24 years since the accident at Three Mile Island, the NRC has passed through two distinct phases. The first year and a half were consumed by six separate investigations of the accident and by actions to correct the most glaring deficiencies they uncovered. Under pressure from the Reagan administration, Congress and the industry, the past year has been devoted to looking for ways to speed up the licensing of new reactors. Diablo Canyon seems to have opened the way for a new phase, one that just might mean a real improvement in nuclear safety.

The NRC operates by setting the standards according to which nuclear plants must be built, operated and maintained. It writes the regulations, inspects, audits and — at least in theory — enforces its rules through its power to license, levy fines and revoke licenses. However, it relies on the utilities to turn regulations into blueprints and blueprints into operating plants. It does not and cannot review every engineer's calculation, every construction worker's weld. It relies on quality assurance programs run by the utilities to see to it that what is supposed to be done is in fact done.

The errors at Diablo Canyon and at several other even more notorious plants in Texas, Ohio and elsewhere all point to the failure of these essential quality assurance programs and to the NRC's lack of response when warning signals appear. An NRC analysis of why the utilities' quality assurance programs failed turned up this bloodcurdling list of causes: "unqualified workers or quality control

THE WASHINGTON POST

Ethics at the White House

weren't they ready with a coherent account? Why, indeed, have they not offered one yet?

Edwin Meese, the president's counselor, says that "appropriate action will be taken" if the Justice Department doesn't "totally clarify" the situation and "absolve" Allen. But suppose that Justice finds no criminality and no need, therefore, to appoint a special prosecutor. Would that meet administration standards? Aren't the standards for conduct higher than that it not be criminal?

There are smaller questions as well: Why did spokesmen initially conceal Reagan's early knowledge of the problem? Why did Allen initially deny any role in arranging the interview? Why did the Japanese journalists, having paid the "honorarium" and given the watches, think it necessary also to send Mrs. Reagan an expensive lacquered box? Is the White House dismissing the question of the gift watches prematurely, contrary to its own regulations? And why the veiled suggestions that the FBI, rather than the White House, has been soft on Allen?

Most of the questions would be of little interest if they didn't persist, multiply — and contrast so starkly with the issues that ought to occupy the national security adviser and his commander in chief. Yes, let the Justice Department answer the questions about Allen's conduct. But meanwhile, the White House owes some answers about its own.

THE NEW YORK TIMES

The professionals in the Reagan White House know that a two-day story is more than twice as bad as a one-day story. Then why have they let the Richard Allen case drag on into an 11-day story? What are the Reagan administration's ethical standards for its most sensitively placed officers? What are Allen's standards for himself?

These are among the issues raised by the strange way in which the president's national security adviser chose to avoid embarrassing Nancy Reagan last January. After helping some Japanese friends obtain a prized inaugural interview with her, he accepted a \$1,000 "thank you" envelope plus two wristwatches. Eager not to offend the donors, or let the money reach Mrs. Reagan, he stashed it in a safe. He kept the watches.

Why, if he meant to be so solicitous of the customs of the donors, did he not send the receipt they needed and wanted? Why was nothing done about the money until someone else discovered it? Did he learn nothing from the conflict-of-interest charges that forced him out of the Reagan campaign?

President Reagan and his highest aides knew of the incident in mid-September. Having called in the FBI and sparked inquiries abroad, they knew also that the story was certain to come out. When it did, they came up with a series of nearly daily contradictions, corrections, omissions and denials, each a fresh self-inflicted wound. Why

Nov. 25: From Our Pages of 75 and 50 Years Ago

1906: Mormon Leader Fined

SALT LAKE CITY — After pleading guilty to the charge of polygamy, Mr. Joseph E. Smith, president of the Mormon Church, was fined \$300. The charge against the prophet was based on the recent birth to Mr. Smith's fifth wife of his 43d child. Governor Cutler of Utah was one of the witnesses against Mr. Smith. In recent investigations of the Mormon Church conducted by Congress, the contention by members of the sect examined has been that polygamy was an ancient tenet of their creed, which was not now adhered to. A federal statute makes it unlawful for Mormons to practice polygamy. This is the first confession by such a high church dignitary that this law was not being observed.

1931: Terrorism in India

LONDON — Intimation that the British government is planning strong action to put down terrorism in India was one of the outstanding features of today's session of Parliament. A hint of the government's determination to use drastic measures to end the menace to individual liberty and social peace, and to seek the resolute suppression of violence, was given by Lord Lothian, undersecretary of state for India, in reply to speeches by Conservative peers protesting against the recent unrest and terrorism. Meanwhile, the federal structure committee of the round-table conference was continuing its discussion at St. James's Palace on the powers of the proposed Indian government.

The Children 'Disappear,' Their Governments Usually Don't

By Jonathan Power

LONDON — At 9:40 p.m. last Jan. 29, uniformed members of the security forces of El Salvador burst into the house of Mariangela García Villas, president of the country's human rights commission. She was not at home, but staying at her house were seven friends, including three of their children, aged 5, 7 and 13. They were questioned about the whereabouts of Mrs. García Villas. They said they didn't know.

The soldiers beat and tortured the adults in front of the children, who screamed and implored them to stop. Next the children were beaten in front of their parents. Unable to extract the information they required, the soldiers took them all off to the national police station. The children were then taken away with no explanation as to their whereabouts. It was only thanks to Amnesty International that they were traced to a juvenile reform center.

On this coming Dec. 1, Amnesty will start a worldwide campaign on "disappearances," to help the thousands who are picked up by the police or the army and are not seen again for years, and sometimes never. Amnesty has decided to single out for special attention

the disappearance and the torture of children.

This month an unusual group of elderly Argentine ladies arrived in London, the *abuelas (grandmothers) de Plaza de Mayo*. They have been campaigning to locate 67 missing children in Argentina. One of the women, María Laura Iríbar de Jotar, told of how last year she finally traced her two small granddaughters to a juvenile court in the province of Buenos Aires just as adoption formalities were being completed with the family who had been looking after them.

The grandmother had last seen the children — Tatiana, then 4, and Laura, then aged 2 months — together with their parents on Oct. 17, 1977. That was the day they had disappeared, victims of the Argentine armed forces' policy of secret kidnappings.

A week after their parents' arrest, Tatiana and Laura were found crying in a street. They were taken to social workers and then registered in separate orphanages as being of unknown name. No effort was made to locate the family.

In 1978 the children went to live with a married couple that wishes

to adopt them. Their grandmother had been combing court registers, visiting adoption centers, keeping her eyes and ears open. On March 19, 1980, her persistence was rewarded. During a routine visit to the juvenile court of San Martín she stumbled across them.

This extraordinary group of Argentine women has many more stories to tell of this ilk. Most of their efforts have not been as productive as those of Mrs. Iríbar de Jotar. Children are rarely reunited with their parents. Babies born in prison to political prisoners are removed, and "disappear" at birth. But by working together, demonstrating and lobbying the "grandmothers" keep up each other's morale and remind the world not to forget Argentina and its children.

To some it might seem facile to harp on the cases of children. But it is clear, from reading through hundreds of Amnesty dossiers, how often children do feature in secret kidnappings.

It is fair to say that no Amnesty case achieved as much publicity, and that few had such political consequences, as the revelations that then Emperor Bokassa of the Central African Empire had ordered, and perhaps participated in, the massacre of about 100 children. The case changed French policy in Africa, created the first all-African human rights commission of inquiry, helped propel toward a mood that was already gathering pace in Africa to take human rights and democracy more seriously, and probably helped undermine the bid by Valéry Giscard d'Estaing to be re-elected president of France.

Amnesty achieved all this not because of any spectacular research project. It was merely a story they lifted while they were checking out, in a routine way, the reports of a riot.

Children in Amnesty's day-to-day work are usually not a special concern. But doesn't the way a government treats its children indicate in a fairly direct way the nature of the beast?

The Soviet government has used the process of separating children from their parents in carefully calibrated religious persecution. The children of activists Baptists, Pentecostals and Adventists have been "taken into care" because their

parents ignored the government's rules about officially registered religious activity.

East Germany, too, uses the children of political prisoners to punish their parents. Political prisoners, once they have served their sentences, are often allowed to emigrate to West Germany, but on occasion the children are held back for a few months. Amnesty has evidence of 10 children whom the authorities have refused to allow to leave.

The South African government has often detained children. It is known that children aged 14 and 15 have been imprisoned in the isolated maximum security prison, Robben Island. The authorities are under no legal obligation to give information to the parents of children detained incommunicado.

In the great debate that has arisen in the human rights arena about whether certain governments are dictatorial or merely "authoritarian," the question of the treatment of children has not been central.

It should be.

The writer is editorial adviser to the *Independent Commission on Disarmament and Security Issues*.



Presidents: How to Improve the Choice

By David S. Broder

WASHINGTON — The rescue of the presidential nominating system is a task whose urgency has been recognized by both parties. The Democrats and the Republicans have chartered commissions to recommend changes in public participation, delegate-selection caucuses, presidential primaries and convention nominating rules.

The effort to overhaul the procedures by which Americans choose the principal candidates for the most important office in the land has been stimulated and challenged by a recent report by the Duke University Foundation on Presidential Nominations, a bipartisan body including past chairmen and presidential aspirants of both parties and headed by the university's president, Terry Sanford, himself twice a contender for the Democratic nomination.

The report is addressed to the parties. Its chief message is that they must accept responsibility for the recent corruption of the presidential nomination process. It says bluntly why the present system — with a multitude of primaries feeding a mean hunger for the hero-candidate whose magical "momentum" will lock up the nomination long before most voters have the contest in focus — "ill serves the purposes of the nation."

"It saps interest, distorts choice, eliminates judgment, narrows the popular base, spans too long a period and squeezes out of the deliberative process those peers whose evaluations and cooperation the choice of a president vitally requires," the Sanford report says. The present system "radically erodes the foundation of the one institution most necessary to its effective operation: the political party."

Of the five main recommendations the commission makes, one is virtually certain to be adopted by the Demo-

cratic Party rules commission headed by Sanford's friend and neighbor, Gov. James Hunt of North Carolina; to make members of Congress and other major elected officials automatic voting members at conventions.

There will be no great controversy in the Hunt commission or its Republican counterpart, headed by Ernest Angley of Texas, about two other recommendations — to "revitalize the local party caucus" as the focus for more delegate-choosing decisions, and to "remove every possible barrier to convenient participation" in those caucuses.

It is unlikely that either party will go as far in restricting primaries as Sanford would like. The report suggests that all primaries be squeezed into a four-month period, with one day a month set by party rules for the voting. That would shorten the primary season and would discourage many states from even bothering to hold primaries. And it would provide the intervals needed to deny those early-primary plurality winners their cheap "momentum" victories on the next Tuesday.

The last recommendation, even more controversial, is to end the candidates' veto power over the choice of their delegates, and to free all delegates from binding commitments of support for particular candidates.

The thrust of the "reforms" of the past decade has been to make the convention an automatic device for recording and ratifying choices already made by the primaries and the state conventions. The Sanford report says that "failure to free the delegates could mean the end of the national party convention as a deliberative body," and that would "clearly signal the demise of political parties."

©1981, The Washington Post

Long on Worthy Intentions but Short on Sophistication

By William Pfaff

PARIS — A year after the presidential election of November, 1980, it must be said that the Reagan administration is well on its way to suffering the same debacle as the Carter administration. It risks being driven from Washington three years from now in the same disgrace as the Carter people in 1980, and for much the same reasons.

The American political system is now producing presidents who are well-intentioned but whose ideas of government, economics and foreign affairs, like those of the men around them, are without breadth or sophistication. The result is confusion and failure.

The Reagan administration's economic policies, as David Stockman recently confirmed, are simply those of the golf-club bar and the executive dining room — and, predictably, they are not working.

From an administration which likes to proclaim that there is no free lunch, one might have expected some skepticism about a plan to increase spending while cutting taxes. Yet these men were seduced by the notion that, since lower taxes have resulted in some cases in sufficient new economic activity to provide the government with more income than before, a universal principle was there revealed. If it could really be relied upon to work like that, no government on earth would have high tax rates.

Foreign policy amounted to being tough with the Russians while remaining. This was expected to bring it resolution of Gulf and Middle Eastern problems, and new support from the allies.

DAVID DESARIO, Amsterdam

Letters

No Confidence

It's a pity America doesn't have votes of no confidence, a device that has served Europeans for years. The importance of major policy decisions, in America as in Russia, is too great for so few to be made.

DAVID DESARIO, Minneola, New York

nor the added degradation of having to return home in near disgrace. Nathan Hale regretted that he had only one life to give for his country. The returned hostages regret that their government is not putting them on easy street for life.

ROSS DIXON, Jubail, Saudi Arabia

A Theory Still

Flora Lewis, it seems, has failed to heed her own advice by presenting Darwin's ideas as scientific fact (IHT, Oct. 20). Had she continued to learn, she would know that Charles Darwin presented us with an interesting theory that contains several gaping holes.

Darwin may have been correct, but the biblical account of creation may also be correct. Let us also remember that today's science is tomorrow's folly.

GEORGE H. SCHOENBAUM, New York

Further Burden?

Government action can undermine, depress, even wreck the national economy. Given time, President Reagan has a fair chance of accomplishing all these things. However, not even the president can "aggravate" the economy. I am entitled to be surprised, dismayed or irritated by such linguistic unidiety on the part of James Reston (IHT, Nov. 17), but only the state or the condition of the economy or my feelings can meaningfully be aggravated.

STANLEY J. GLICK, Paris

The Czar's Son

Re the letter "Son of the Czar" (IHT, Nov. 18): The czar's son Alexis was a hemophiliac and his doctor was in constant attendance. Gen. Wrangel's troops retrieved the bodies of the family.

MARTHA LUYSON, Geneva

times inevitably collide, for reasons which have nothing to do with morality. As the Cambridge historian, F.H. Carr, has put it, "History is a process of struggle, in which results, whether we judge them good or bad, are achieved by some groups directly or indirectly — and more often directly than indirectly — at the expense of others. That is what history is all about."

Presidents Reagan and Carter represent the political rebellion of provincial America against its misgovernment by that "Establishment" which before had enjoyed a predominant influence in both Republican and Democratic administrations since the time

of Warren Harding. It became discredited by Vietnam, enjoyed an ambiguous return by Richard Nixon and Henry Kissinger, and was decisively defeated by Carter.

The two most recent presidents came to power by challenging Establishment Washington and also the New York media, the cosmopolitans and "secular humanists" who have sponsored certain abrasive changes in the

Official Says Polisario Views U.S. As Last Hope for Peace in Sahara

By Barbara Crossette
New York Times Service

NEW YORK — For the Polisario Front, which has been fighting Morocco for nearly six years for control of the Western Sahara, the United States is the remaining hope for peace and a political settlement in the region, according to a leader of the group.

Hakim Ibrahim, foreign minister of the Polisario Front, has been in New York since September attending the UN General Assembly. The assembly is to take up a resolution this week calling for negotiations on the future of the Western Sahara, which Spain gave up in 1976.

In an interview in New York on Saturday, Mr. Hakim said that neither the efforts of the United Nations nor those of the Organization of African Unity would influence events in the region as much as what he and other Polisario officials believe to be an impending U.S. decision on more military assistance to Morocco.

Morocco's King Hassan II is

planning to visit Washington in the near future. Although the State Department says that no date or agenda has been set for the visit, diplomats in Washington suggest that the king might arrive early in December.

U.S. Concerned

The Reagan administration is concerned about what has been described as a recent increase in the sophistication of arms being used by the Polisario guerrillas against Morocco.

In testimony to the House Foreign Affairs Committee on Nov. 12, Secretary of State Alexander M. Haig Jr. said that advanced Soviet weapons, including tanks and radar-guided SAM-6 anti-aircraft missiles, were now being used against Moroccan forces. He said the weapons were being supplied through Libya, which has supported the independence movement along with Algeria. The Polisario is also reported to have bases in Algeria.

In the interview, Mr. Hakim said: "In 1979, Hassan told Presi-

Rallis Emphasizes Need For Greek Ties to West

By Marvine Howe
New York Times Service

ATHENS — Former Premier George Rallis has urged his successor, Andreas Papandreou, to maintain traditional ties with the West, arguing that to do otherwise would harm Greece's interests.

Opening the debate Monday night on the Socialist government's program, Mr. Rallis, leader of the conservative opposition, accused Mr. Papandreou of an unrealistic foreign policy, an unworkable policy of socialization and undemocratic practices in taking over the administration.

On Sunday night Mr. Papandreou had announced his government's program, which includes the phased withdrawal of U.S. bases, the renegotiation of Common Market membership terms, the unilateral removal of nuclear weapons and a threat to abrogate the 1980 agreement on Greece's re-

Bangladesh Swears In Its New Vice President

REUTERS
DACC, Bangladesh — Former Finance Minister Mirza Nurul Huda was sworn in as vice president of Bangladesh on Tuesday by the country's new president, Abdus Sattar.

The choice was President Sattar's first major decision since his election Nov. 15 to succeed Ziaur Rahman.

dent Carter, "Give me weapons and I will have peace by 1980." The United States responded favorably. But did the king of Morocco make peace? On the contrary. There has been only more intransigence, more fighting, more suffering.

Mr. Hakim said that if King Hassan succeeded in obtaining more U.S. arms, the Polisario would respond accordingly.

"If the Americans react favorably to Moroccan requests for weapons, it will be very dangerous," Mr. Hakim said. A rejection of any Moroccan request could bring a settlement sooner, he said, adding, "The key to all our hopes are the Americans."

Base in Sahara

Mr. Hakim appeared to be putting some distance between the Polisario Front and the Algerians and Libyans. He said that contrary to Western reports, the Polisario's provisional government was based entirely in the Western Sahara, which it calls the Sahara Arab Democratic Republic, and not in Algeria.

Mr. Hakim would not be specific in replying to questions about the level of Soviet arms possessed by the Polisario forces. But he said, "We have weapons from America, Russia, Belgium and France — wherever we can get them." He said many of the arms and other equipment had been captured from the Moroccans and the Spanish before them.

According to Abdullah Madi, the Polisario Front's representative at the United Nations, a capital has been established in the northern city of Hanza, on the Segura River, where the water supply makes cultivation possible.

The Polisario officials said that the economy of the Western Sahara — including exploitation of the area's large and potentially lucrative phosphate reserves and the creation of a fishing industry — could thus be undertaken in cooperation with Morocco. He said that the Polisario Front would have no problems in working with the Moroccan king in development of the region.

A Swiss-educated lawyer who speaks several languages, Mr. Hakim said he hopes for close ties with Western Europe, particularly in economic development.

"We would be part of the Third World, but with the right to determine our own alignment," Mr. Hakim said. "In our constitution it says that Islam is the base of the state. Private property exists. The Polisario is not Communist."



Attorney Robert Bryan, left, goes over the ground rules with state police archivist Cornel Piebani at police headquarters in West Trenton, NJ. Some of the many boxes of trial evidence in the Lindbergh case are in the foreground.

New Jersey Police Open '32 Files In Lindbergh Son's Murder Case

Washington Post Service

WEST TRENTON, N.J. — New Jersey state police have opened the files on the 1932 kidnapping-murder of Charles A. Lindbergh Jr., giving the public a look at more than 90,000 documents and pieces of evidence that have been sealed for nearly 45 years.

The file was ordered opened by Gov. Brendan T. Byrne early last month, after a Freedom of Information Act lawsuit was filed on behalf of the widow of Bruno Richard Hauptmann. Hauptmann was executed in 1936 after being convicted of kidnapping and killing the son of the aviator Charles A. Lindbergh and Anne Morrow Lindbergh. The boy's body was found in May, 1932.

Robert Bryan of San Francisco, the attorney representing Anna Hauptmann, 83, of Yeadon, Pa., says the evidence contains information that could vindicate her late husband. Mr. Bryan has filed a civil suit on behalf of Mrs. Hauptmann, seeking \$100 million in damages from current and past state officials.

The evidence from the 1932 case was displayed Tuesday in two caged areas in the state police headquarters in West Trenton after the files were opened on Monday. It included a photograph of the decomposed body of a child that Lindbergh had identified as his slain son.

Britain to Shut Gibraltar Naval Yard And Reduce 'Rock's' Air Operations

United Press International

LONDON — Britain, as part of its policy to pare military spending, is to close the naval dockyard on Gibraltar, the Ministry of Defense has announced.

Minister of State Peter Blaker said Monday that the closure, which would mean the loss of 1,000 jobs on "The Rock" and in Britain, would take place at the beginning of 1983, with preparations beginning next year.

The final date of closure will depend on consultations to determine whether the dockyard can be operated in some commercial fashion," a ministry spokesman said.

The government also announced reductions in the operating hours of Gibraltar's Royal Air Force base, to make it "more in keeping with military purposes."

Gibraltar's naval base, in existence for 277 years, will continue to operate, but ship repair services are to be terminated. The closure is to be implemented in accordance with provisions for naval cutbacks outlined in August by Defense Minister John Nott.

mines whether the dockyard can be operated in some commercial fashion."

The government also announced reductions in the operating hours of Gibraltar's Royal Air Force base, to make it "more in keeping with military purposes."

Gibraltar's naval base, in existence for 277 years, will continue to operate, but ship repair services are to be terminated. The closure is to be implemented in accordance with provisions for naval cutbacks outlined in August by Defense Minister John Nott.

Gambia's Democracy, Economy Strained by Recent Coup Attempt

By Thomas Kamm
International Herald Tribune

BANJUL, Gambia — It has been almost four months since President Dawda K. Jawara, with the help of 2,000 troops from neighboring Senegal, was reinstated in State House a week after rebels attempted to overthrow him and install a Marxist-Leninist regime while he was in London for the wedding of Prince Charles.

During that week, Gambia, which tourist brochures describe as "a peaceful country in transition towards modernity," was the scene of terrifying violence and ludicrous events — the coup leader frantically and unsuccessfully searching for the telephone number of the Libyan leader, Col. Moamer Qaddafi, the rebels opening the jail doors and arming anyone who wanted a gun. The coup attempt, according to official sources, caused nearly 1,000 deaths and millions of dollars of damage and shattered this tiny West African state's image of tranquility and stability.

Today, were it not for the discreet presence of Senegalese soldiers and a midnight-to-6 a.m. curfew, a visitor to the capital of Banjul would scarcely believe that anything had happened. But the drawn iron gratings on Buckle and Wellington streets hide devastated shops, and the business-as-usual attitude by the government and population belies deep soul-searching.

Always an Exception

"On paper, Gambia should have been the last country to undergo this. It didn't deserve it," a British resident said. Bakary Darbo, the recently appointed minister of information and tourism, declared in an interview that the coup and attendant violence were "out of character with the country's image."

On a continent where the one-party system is the rule, where elections, when held, are often rigged, where political arrests are common and military coups frequent, Gambia was an exception. Sir Dawda had been consistently returned to office through elections since 1965, the opposition is represented in Parliament, the judiciary is independent and the president has long been an advocate of democracy and human rights.

But if these facts are exceptional, the reasons given by Kukoi Samba Sanyang's short-lived National Revolutionary Council for its action and the motives ascribed to the coup by foreign analysts are the usual African fare: corruption, nepotism, mismanagement, tribal animosity, economic deprivation.

"Politically this coup should have succeeded, because it fed on genuine discontent which still exists since nothing has been done to

tion called Senegambia. Under the plan, Senegal and Gambia will remain sovereign states but will integrate their security forces and communications network, coordinate their foreign policies and form an economic and monetary union, including common customs regulations.

But Senegal is seen as the main benefactor of such an alliance. "It is difficult to see Gambia continue to exist as a truly sovereign nation after what happened," a Western diplomat said. "I don't see how you can have a confederation when one state is so superior in all respects. The Gambians have no cards in their hands."

The common customs regulations, which the Senegalese had been seeking for many years, are sure to raise objections in Gambia. But they are seen by diplomats as the price Sir Dawda has to pay for having his government saved by Senegal.

Because of its favorable import duty, Gambia, through trading firms based in Banjul, imports much more than it consumes. The surplus is re-exported clandestinely to neighboring African states, depriving them of customs levies. Senegal claims to incur great financial losses because of this practice, which it calls smuggling, but which businessmen who are involved in it call "transit trade." This trade is one of Gambia's main economic activities.

The coup has already brought things to a standstill. The warehouses of most of the trading firms were devastated, and they were not insured against civil strife.

Peanut production, which accounts for 70 percent of export earnings and a sizable part of government revenue, dropped by two-thirds in the past two years because of sparse rainfall.

There is some doubt, however, as to the future of multiparty democracy. Sheriff Dibba, the leader of the main opposition group, is in jail, suspected of complicity with the rebels. "In theory it is still a democratic country with an opposition," a Western diplomat said, "but the opposition has no voice. I doubt it will ever get back to democracy as it was before."

The Senegalese intervention justified by a 1965 Mutual Defense and Security Agreement that allows Senegal to send troops if it feels its national security is endangered, has also raised doubts about Gambia's sovereignty. Except for a small promontory on the Atlantic Ocean, Gambia is surrounded on all sides by Senegal, which is nearly cut off from its food-rich province of Casamance by this enclave.

The two countries signed a pact on Nov. 14 creating a confederation.

AP

DIAMONDS



YOUR BEST BUY

Single diamonds at wholesale prices, by ordering direct from Antwerp, the world's most important cut-diamond market. Give diamonds to the ones you love, buy for investment, for your enjoyment.

Write now for free price list or call us.

Joachim Goldstein

diamondexport

Established 1928

Pellistraat 62, B-2000 Antwerp, Belgium. Tel.: 03/343751.

Telex: 71729 syl h.

At the Diamond Club Bldg.

Gold Medal

McDermott International, Inc.

Phone: 357-0000

Principal International Locations:

Australia
Melbourne
J. Ray McDermott (AUST) Pty. Ltd.
Phone: (03) 643660

Belgium
Brussels
McDermott International, Inc.
Phone: 242-1000

Brazil
Rio de Janeiro
McDermott Servicos de Construcao Ltda.
Phone: 240-3996

Egypt
Cairo, Zamalek
McDermott International, Inc.
Phone: 819448/815892/709741

Indonesia
Jakarta
P.T. McDermott Indonesia
Phone: 357474

Nigeria
Lagos
McDermott (Nigeria) Limited
Phone: 613800/613805/617969/613722

Norway
Sandvika (Oslo)
McDermott Norge
Phone: (02) 54-5264

Singapore
McDermott Engineering Pte. Limited
Phone: 7344531

McDermott South East Asia Pte.
Limited
Phone: 253351

U.A.E.
Dubai
McDermott International, Inc.
Phone: 227131

United Kingdom
London, England
McDermott Engineering
Phone: 903-1333

Aberdeen, Scotland
McDermott International, Inc.
Phone: 574677

Inverness, Ardersier
McDermott Scotland
Phone: 2561/2571/2575

McDermott

Laying Cognac's underwater pipeline was a challenge. A challenge we've met two years in a row.

Last year, McDermott's Lay Barge 29 installed a platform-to-shore oil pipeline, a 23-mile, 12½" line from Cognac, the world's deepest platform, in 1,025 feet of water.

This year, McDermott's Marine Pipeline Division returned to Cognac to lay an even larger pipeline, a 16" line that will deliver natural gas to processing facilities in the Gulf region. McDermott's Lay Barge 28, straight from pipelaying job in only 39 feet of water, installed this deep line at a rate of almost a mile a day.

Our conventional pipelaying equipment has been designed and built to work in shallow and deep water. And we have per-

fected the total saturation diving systems and computerized navigational methods that make deepwater installation precise and practical.

Right now, McDermott lay barges, jet barges, diving systems and personnel are working around the world, handling jobs of all sizes. Our 30 years of experience doing tough jobs in all depths of water has pre-

No matter how the world solves its energy problems, McDermott is involved.



Main gate to the Swiss market



FRANCE:
L'état de disgrâce

If you are interested in reaching the top income-per-capita segment of the Swiss market, don't use the side door. Use L'IMPACT. It's the magazine that's made its mark.

If you want to place your business, service or luxury goods advertising before the most influential eyes in Switzerland, then you must use L'IMPACT.

Eighty-five per cent of L'IMPACT's subscribers are senior managers or independent professionals. This represents an unusual concentration of high purchasing power and influential decision makers by any analysis. And it is also read in the German-speaking part of Switzerland.

Take a look at your fellow advertisers: Audemars Piguet, Caran d'Ache, Chivas, Japan Airlines, Kodak, Mercedes Benz, Range Rover, Volvo, Van Cleef & Arpels... to name a few at random. Not the sort of people to make mistakes.

L'IMPACT... main gate to the rich Swiss market.

Please send me rate and circulation data with specimen copies:

Name: _____ Position: _____

Company's name: _____

Address: _____

City and country: _____

Tel.: _____ Telex: _____

Address to: L'IMPACT
Hugo Buchser S.A.
P.O. Box 402, CH-1211 Geneva 11
TEL (22) 28 81 55 — Telex: 429 469 HBSA

Sylvie Vartan Succeeds As Disciplined Singer

By Michael Zwerin
International Herald Tribune

PARIS — In a recent poll conducted by the magazine L'Express, teen-age girls voted Sylvie Vartan as the most-admired woman, after their own mothers.

"I was surprised. After their mothers. Gee, I don't know how to take that," she said in the salon of her two-story home in Villa Montmorency, an enclave of small houses with gardens on the edge of Paris. "I don't know why. Maybe it's because they think I have succeeded in doing what I wanted, and that's everybody's dream when you're young."

One answer might be a performing style that combines rock with a music-hall, variety flair, appealing across the generation gap to draw audiences made up in large part of family groups of youngsters and parents.

The gray light made her seem even blonder than usual, blond-on-blond. She appears to have no eyebrows. Her English has a soft Slavic accent; she splits her time between Paris and Beverly Hills. "It's not bad," she laughed. "Not a tough life is it? Yeah, lucky."

But she has achieved success at some psychic cost. She is known as "iron-willed," a perfectionist. She rehearsed with the 12 dancers and 21 musicians supporting her 24-hour, Las Vegas-style, song-and-dance extravaganza for three months before their current Nov. 23-Jan. 3 run in the 4,500-seat Palais des Sports. The show is already sold out through Dec. 5, her press representatives report.

"Discipline is very important for me," she said. "It's awful. Everything can be only one way, you know. It reflects in my career, in my way of approaching my shows, my house — everything. I must be organized. I have to have order. Otherwise I'm lost, I'm panicking."

She was born in Iskretz, Bulgaria, and her family emigrated to France in 1952, when she was 8. Her brother Eddie Vartan, who now produces her recordings, became a jazz trumpet player. One of his friends, Frankie Jordan, needed a little girl's voice for a record he was making. The record "Panne d'essence" (Out of Gas) was a hit and Sylvie signed with RCA a few weeks later.

In the early '60s, Life magazine named her "teenager of the year" and Variety called her "No. 1 French vocalist." She made her big splash about the same time as French super-rocker Johnny Hallyday. They were among the first to record French-language versions of American rock 'n' roll hits such as Gene Vincent's "Say Mama" and Roy Orbison's "Pretty Woman."

When she and Hallyday were married, the French press treated it like a mating of gods — these two tinsel-blond sex symbols unit-

ed. They combined their shows for awhile, performing for several hundred thousand people in one of Paris' biggest squares, Place de la Nation, and selling out the Olympia music hall.

But it was a rocky marriage. They spent less and less time together. Hallyday likes to live in the fast lane. They led their personal lives in public, exchanging messages in published memoirs. "It's Sylvie I still prefer," he wrote after they were separated. "She is the star of the little movie of my life."

They were divorced last year. The cover story of the current issue of the mass-circulation weekly *Jours de France* quotes her: "If he called me for help, I'd still go. If I called him, on the other hand, I'm not so sure he'd come. I only know one thing and that is I would never call him no matter what."

A dance studio bearing her name opened in Paris last September. She moves between her two homes with her mother ("Wherever I go she follows, I'm very lucky and so is she") and 15-year-old David, her son with Hallyday. ("We promised never to publish a photo of our child," he said. "I kept my word, she did not. I'm disappointed.")

She will take her current show to the United States in 1982. "But it will be shorter, because nobody plays two and a half hours in the States. There it's one hour maximum. It's gonna be easy work for me. Just vacation."

Discipline is very important for me," she said. "It's awful. Everything can be only one way, you know. It reflects in my career, in my way of approaching my shows, my house — everything. I must be organized. I have to have order. Otherwise I'm lost, I'm panicking."

She was born in Iskretz, Bulgaria, and her family emigrated to France in 1952, when she was 8. Her brother Eddie Vartan, who now produces her recordings, became a jazz trumpet player. One of his friends, Frankie Jordan, needed a little girl's voice for a record he was making. The record "Panne d'essence" (Out of Gas) was a hit and Sylvie signed with RCA a few weeks later.

In the early '60s, Life magazine named her "teenager of the year" and Variety called her "No. 1 French vocalist." She made her big splash about the same time as French super-rocker Johnny Hallyday. They were among the first to record French-language versions of American rock 'n' roll hits such as Gene Vincent's "Say Mama" and Roy Orbison's "Pretty Woman."

When she and Hallyday were married, the French press treated it like a mating of gods — these two tinsel-blond sex symbols unit-



Harry Benson, Sygma
Singer Vartan at Palais des Sports in Paris.

Movies: Fassbinder's 'Lola' Lacks Real Life

By Thomas Quinn Curtiss
International Herald Tribune

PARIS — Rainer Werner Fassbinder says that his "Lola" is not a remake of "The Blue Angel," and in an interview he has outlined the genesis of his latest work, beginning with a proposal that he adapt for the screen Heinrich Mann's novel, "Professor Unrat," the source of "The Blue Angel."

The novel recounts the downfall of a tyrannical high school teacher of imperial Germany, picturing the petty pedagogue as despicable and his destruction as a triumph over menacing evil. The famous film of Josef von Sternberg altered the scene to a town of the Weimar Republic and the professor, unforgettably impersonated by Emil Jannings, became a pitiful victim of cruel circumstances with his disintegration a tragedy of compelling force.

The Mann novel did not appeal to Fassbinder as film fodder and he has amended the narrative to concentrate more on the destructive woman than on the destroyed man. As the 1900 background of the book was not to his liking or comfort he has set the revised ver-

sion in 1957, when the rebuilding of West Germany brought on an economic boom. To stress the time and place a photograph of Chancellor Adenauer is displayed at the start and at the finish, apparently a star at his administration.

Replacing the powerful sex drama of "The Blue Angel" is a melodrama about financial corruption in which an upright director of public works — Professor Unrat transformed into a government official — uncovers graft in the reconstruction deals in a provincial city. An unworldly fellow, he mistakes a cabaret hostess for a fine lady and, falling under her fatal spell, cannot liberate himself even when he discovers that she is the mistress of an influential local crook. Her hold on him hails his intention of exposing the flagrant dishonesty, his marriage to her blinding him to silence.

The name of the nightclub singer, Lola, is all that remains of "The Blue Angel" and even the songs of that title, memorably delivered by Marlene Dietrich, has been omitted. Indeed, the rancorous din heard in the cabaret is of giddy realism and Barbara Sukowa's siren is naturalistic in interpretation. Armin Mueller-Stahl as the good man gone wrong and Mario Adorf as the blustering, ruthless cad who has the town in reconstruction in his iron grip are competent actors, but the scenario of Peter Märthesheimer and Pea Fröhlich weighs a ton and neither Fassbinder's dialogue nor direction can bring it to vivid dramatic life. (At the Marignane-Concorde Pathé, the Hauteville Pathé and the Gauvin Les Halles in Paris.)

"Das Boot," tracing the history of a Nazi U-boat early in World War II, is a large-scale German screen epic. Based on Lothar-Guenther Buchheim's best seller, its realization has been costly as a major Hollywood product and it is a box-office hit of phenomenal proportions in West Germany, Austria and other German-speaking areas.

"The Mousetrapp" is 29
United Press International
LONDON — Agatha Christie's everlasting stage play "The Mousetrapp" is 29 years old today. Tonight's performance will be No. 12,065. More than 5 million customers have seen it, and during the single nightly intermission they have eaten 212 tons of ice cream.

The two-hour film begins at La Rochelle in 1941, when the French port was under Nazi occupation, with a crew awaiting the arrival of a new submarine. The sailors a devil-may-care lot who, due to their dangerous assignments are liberated from rigid discipline, carouse in the bars and show scant respect for their cause; the enemy song "It's a Long Way to Tipperary" is one of their caterwauling favorites and they refer to the Führer in uncomplimentary terms. Their wild behavior and irreverence reveals that they are brave men unconverted to Nazi doctrine.

Wolfgang Petersen in directing has imposed a documentary quality on all that happens. There is an authentic feel to his depiction of the existence aboard the U-boat: the monotony in restricted space, the sense of ever-present dread, the panic when the men are ordered to sudden duty. The action builds

Ball Raises £50,000 For U.K. Royal Opera

By Jane Wilkens Michael
International Herald Tribune

LONDON — When most grand dames turn 50, the last thing they want to do is make a big deal about it. Not so the Dorchester Hotel. To celebrate its golden jubilee and perhaps to show off its new \$20-million face-lifting, the London landmark combined forces with the Royal Opera House Monday night to throw an anniversary banquet and masked ball. Proceeds of the £100-a-plate dinner went to the Royal Opera House development fund.

Princess Margaret, who is, among other things, president of the Royal Ballet, headed the guest list. The Royal Ballet is celebrating its 25th year under that name, and the Royal Opera — the other prominent resident of the Royal Opera House, Covent Garden — gave its first performance 35 years ago this month.

Need for Improvements

Apparently, the horrendous backstage conditions and decor of the 1940s remain in the '80s. "And," says Patrick Spooner, director of the Royal Opera House Development Appeal, "we need about £500,000 to improve facilities for the artists and staff by building new rehearsal studios and dressing-rooms and providing sufficient storage space." Although some of the women attending Monday night's gala might have spent more for their masks than on

the required contribution, the evening brought in £50,000.

Hosting royal balls is not foreign to the Dorchester. "Some of the more memorable occasions here were Prince Philip's bachelor party, the pre-coronation breakfast for Queen Elizabeth, and three state banquets all given within a year, by King Faisal of Saudi Arabia, President Ayub Khan of Pakistan and King Hussein of Jordan," general manager Udo Schlemrich said. "It was at Hussein's dinner that the queen mother, upon seeing a decoration of live fish swimming through lily plants, remarked: 'Had I known, I would have brought my rod.'"

No Mouscups on Hand

While no reigning monarchs were in attendance this time, the guests Monday night had more titles than the Library of Congress. Among them were the Earl and Countess of Lichfield; Sir Claus Moser, chairman of the Royal Opera House, and Sir Joseph Lockwood, chairman of the Royal Ballet. It seems even the titled have their problems these days: One foot-tall aristocrat told her table that she is constantly asked to take down paper towels from the top shelf of the supermarket.

Fashions ranged from classic velvet and ruffles to call-length pants and sequins. The choices of masks were more creative: Some opted for plain black on a stick handle, others matched a dress pattern. A few looked as if they had been chosen in haste. A man from Dallas, for example, somehow ended up with feathers and war paint. Princess Margaret, looking tan and thin in a green taffeta gown, wore a jeweled mask that covered her eyes and continued on to her forehead with scatterings of diamonds in her hair. "A little like a chandelier," said one guest. The only thing that seemed uniform in the dress code was the diameter of the jewelry — each stone being about the size of a tea sandwich.

The ball was the first held in the newly refurbished ballroom of the hotel. Here, royal blue walls, mirrors, crystal and a fountain on the dance floor brought back glories of empire lost. The dinner was appropriately operatic. Prepared by Anton Mosimann, the hotel's 34-year-old maître-chef de cuisine, it consisted of a prelude: rosette of smoked salmon with mousse of trout; Dorchester; an intermezzo: consommé of beef Aida; an aria: veal medallion Royal Opera; and the coda: soufflé glace Covent Garden.

Raffle Prizes

Coda calories were worked off by after-dinner dancing, while the concluding event was a raffle for £25,000 worth of prizes. Not a typical bingo-hall, these included an opera or ballet performance and champagne dinner for six, with the winners sitting in the royal box; a weekend in Marbella; and two hours of tennis lessons, and a gold and diamond watch.

Princess Margaret stood in the center of the floor and dipped her hand into the raffle drum to pick the winners. Among the lucky ones was a nephew of King Hussein, who won a weekend in Paris.

This is said to have been the first masked ball in London in 60 years and all agreed it was a success. The Dorchester could also breathe a sigh of relief. In 1856, the Royal Opera's predecessor held a masked ball in its theater on the same Covent Garden site that the present opera house occupies. A piece of scenery fell into an oil lamp at the end of festivities and the building burned down.

WORLDWIDE ENTERTAINMENT

PARIS

MOLLY'S ANTIQUE CLOTHING SHOW

In Paris, abroad "L'Escargot," Port Solférino. Tel: 551 27 07. November 26, at 7 p.m. See Back Page, Classified.

WORLDWIDE ENTERTAINMENT

PARIS

UGC NORMANDIE

Evenings original version

Walt Disney Productions

The Fox and the Hound

TECHNICOLOR®

Released by ELSA VISTA DISTRIBUTION CO., INC. © 1981 Walt Disney Productions

G

LES 2 MEILLEURES SOIRES DE PARIS

NOUVELLE REVUE COCORICO !

LIDO

20 h 30 Diner dansant champagne et revue

295 F

22 h 30 Revue et 0 h 30 champagne

200 F

PRIX NETS/SERVICE COMPRIS

NORMANDIE

116 bis av. des Champs-Élysées

563 U 61 et agences

MONTMARTRE

Place Blanche

606 00 91 78 02 et agences

WHEN YOU TELL'EM BACK HOME HOW YOU CAN CANCAN, SAVE A FISTFUL OF FRANCS ON THE CALL.

The cancan girls aren't the only ones kicking up their heels in Europe. You're having the kind of adventures they want to hear about back home. So give 'em a call. And do it with these franc-saving tips in mind.

SAVE ON SURCHARGE

Many hotels outside the U.S. charge exorbitant surcharge fees on international calls. And sometimes the fees are greater than the cost of the call itself. But if your hotel has TELEPLAN, the way to keep hotel surcharges reasonable, go ahead and

call. No Teleplan? Read on!

SAVE WITH A SHORTIE

In most countries there's no three-minute minimum on self-dialed calls. So if your hotel offers International Dialing from your room, place a short call home and have them call you back. The surcharge on short calls is low. And you pay for the call-back from the States with dollars, not local currency, when you get your next home or office phone bill.

SAVE THESE OTHER WAYS

Telephone Company credit card and

Bell System

Reach out and touch someone

Eurobond Market Has Seen the 'Year of the Dollar' in '81'

By Carl Gewirtz

PARIS — For the Eurobond market, with a record-shattering \$28.3 billion worth of new issues floated in the first 11 months of the year, 1981 has been the Year of the Dollar.

Not since the pre-devaluation days of 1967 has the U.S. dollar accounted for so large a portion of overall new business as it has this year — 86 percent compared to 89 percent 14 years ago. In the interim, according to data published in Morgan Guaranty's monthly *World Financial Markets*, the dollar sector of the Eurobond market had tumbled to a low of 44 percent.

The explanation for the renewed popularity, of course, lies in the record-high interest rates offered on dollar securities and the resulting rebound of the dollar on the foreign exchange market, making it a "strong" currency for the first time since the debilitating days of the Vietnam War.

The wonderment is not that the dollar should have gained favor under these conditions, but that the volume of new issues could be so high — topping the \$23.97 billion floated in all of 1980 — when the coupons borrowers were forced to offer were so high.

Real Interest Rate

Not only are coupons high, but most importantly the real rate of interest — for so long negative on dollar securities — was also a record. Coupons on dollar Eurobonds have breached 17 percent while the dollar's purchasing power is currently eroding at half that rate — obviously no deterrent to companies sorely in need of cash who would have to pay even more to borrow short-term from their banks at the prime rate or higher.

Another point worth noting is the return of U.S. companies, who so far this year account for about 20 percent of total new issues. This compares with as little as 8 percent only three years ago and a low of 3 percent set in 1975. In the early days of the market's history, when U.S. controls on investment outflows forced companies to find finance outside the United States for their international expansion, U.S. companies accounted for 60 percent of total Eurobond business.

Their return to this market, which began in 1979 and has increased each year since, is a reflection of the extreme volatility of bond markets everywhere.

Once considered the haven for the savings of orphans and widows, investing in bonds has become almost as risky as stock markets — without the potential reward of huge capital gains inherent in stocks. The credit policy of the United States, reflected with some delay by other governments, has vacillated since 1979 between bouts of fighting inflation and fearing recession with the result that each new burst of "go" was followed by a new, more stringent "stop" marked by yet higher levels of inflation and new highs set in interest rates.

As the "go" was flashed, bond markets would reopen and investors would rush to buy high-yielding securities carrying fixed-rates widely perceived to be record highs. The subsequent "stop" saw rates pushed higher yet, eroding the value of older issues and disillusioning investors.

Peak Seen

At present, with interest rates easing from their late summer highs, many analysts believe the peak in rates has been set and it is downhill from here. A minority think that a new "stop" and record high interest rates lurk next year.

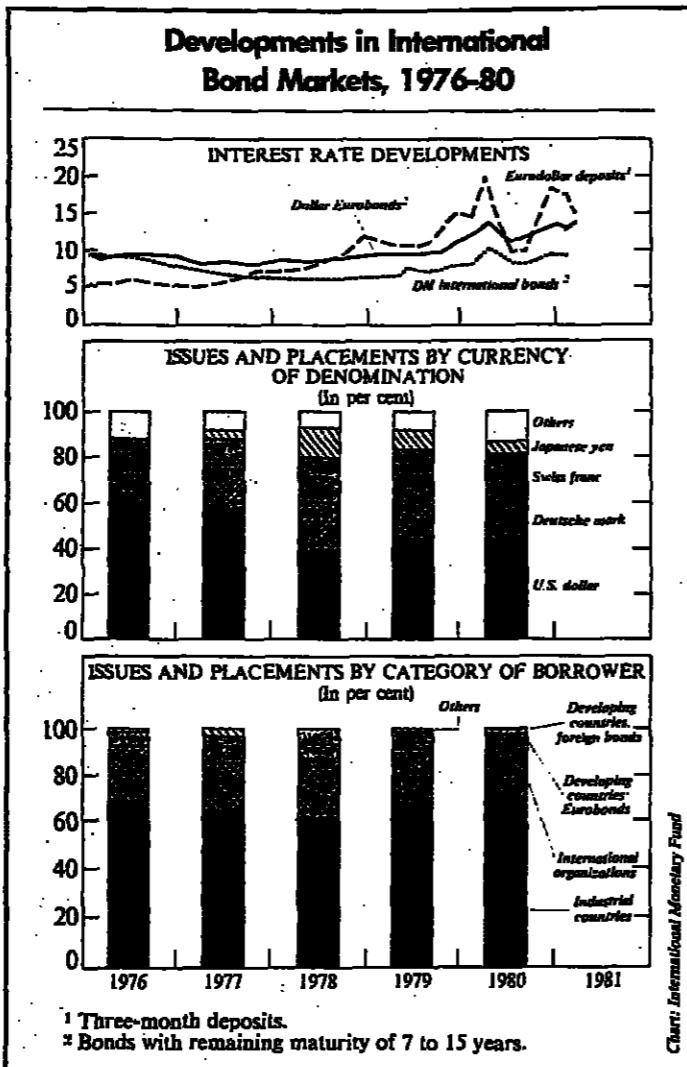
Amid this stop-go confusion, bond markets shuttered and reopened with alarming frequency and speed — and only the most nimble borrowers were able to raise the cash they needed. Underwriters would talk about "win-

dows" opening in the market, enabling issues to be marketed, and then slamming shut.

Speed in coming to market became a critical factor in launching new issues, and speed is something the Eurobond market offers that New York, for example, cannot match given the requirement to file a new securities issue with the Securities and Exchange Commission.

The Eurobond market's speed was accelerated when issuing houses "bought" an entire new issue — set the coupon and subscription price in private with the borrower and then tried to market the paper. However, by that time, the conditions offered to investors often are no longer sufficiently attractive and managers have been forced to

(Continued on Page 14S)



¹ Three-month deposits.

² Bonds with remaining maturity of 7 to 15 years.

N.Y. Birth of IBFs Is Awaited

By David F.V. Ashby

ONDON — Dec. 3 will be a red-letter day for the Euro-markets. A new international financial center will be born in New York, and London's traditional pre-eminence in the Eurodollar market will face its most serious challenge. With a few years, New York could rival London as the principal focus of the Eurocurrency market.

These far-reaching changes will be the result of the establishment in New York of so-called international banking facilities (IBFs) through which banks in the United States (both U.S. and foreign) will be able to conduct their Eurodollar activities without having to route such business through finance centers outside the United States.

Paradoxically, the creation of IBFs is both a contradiction in terms and a supremely natural and inevitable development. It is a contradiction in terms because a Eurodollar is, by definition, a U.S. dollar held outside the United States. It is a natural development because the present system, which effectively forces U.S. banks to open expensive overseas offices if they wish to lend their own currency, is clearly artificial and anomalous. (Of course, the Euro-markets, with their freedom from regulation, are really much more "natural" than the over-regulated domestic financial markets that are the norm in most countries.)

The artificiality that has forced

On Dec. 3, London will face its most serious challenge to its role as leader in the Eurodollar market.

so much of U.S. international banking to be conducted through offshore offices around the world derived from the high level of state and local taxes in the United States, the requirement to hold substantial reserves against deposits (Regulation D) and the ceilings on the interest rates that banks in the United States can offer on deposits (Regulation Q). By

exempting international banking activities in New York from state and local taxes, the New York Legislature removed the first obstacle to IBFs in May, 1978. The Federal Reserve, by amending regulations D and Q in June, 1981, removed the second and third obstacles and gave its blessing to a project that was first mooted as long ago as 1974 as a means of increasing the role of U.S. banks in petrodollar recycling.

Early attempts to persuade the Fed to support the IBF proposal were met with some suspicion, if not outright hostility. The Fed already suspected that the existence of the Eurodollar market had weakened its control of the domestic U.S. money markets, and it feared that to allow Eurodollar transactions to take place within the United States would weaken that control further. However, it now appears to have accepted that any leakages from the U.S. money supply into the Euromarket, or vice versa, will be relatively slight. It also seems to believe that its attempts to persuade other countries' central banks to exercise greater control over the Euromarket will carry greater weight if more of the market is located within its own jurisdiction.

Another reason for giving approval to IBFs is that they will improve the international competitiveness of U.S. banks. The Fed's concern for ensuring that the U.S. banks do make U.S. banks more competitive in the international marketplace is demonstrated by its attitude toward the question of the minimum period of notice that is required for IBF deposits. For interbank deposits, there is no minimum requirement; they may be on an overnight basis. But the Fed has insisted on a minimum notice of two days for the withdrawal of non-bank deposits, so that there is no temptation for U.S. corporations or individuals to use those deposits for domestic transactions.

However, this limitation is regarded by the banks as one of the principle obstacles to the full development of the IBFs as rivals to other Eurocurrency centers. So the Fed has acknowledged their concern by promising to keep this restriction under close review and to consider relaxing it if the banks do find that it inhibits their ability to compete.

Another Disadvantage

Another major disadvantage of New York compared with the established Eurocurrency centers is that the IBFs will not be able to issue certificates of deposits (CDs). In London, CDs represent a significant part of the banking system's Eurocurrency liabilities; within the last year their share of total foreign-currency liabilities has risen from 11½ percent to 13½ percent. For the U.S. banks in London, the significance of CDs is even greater: they rely on CDs to fund almost 30 percent of their Eurocurrency portfolio.

Despite these handicaps, the

Table 1: Estimated Size of the Worldwide Eurocurrency Market

(Billions of U.S. Dollars, End of Period)

	1975	1976	1977	1978	1979	1980*	1981* (March)
EUROPE-BASED MARKET							
A. Gross	351	411	517	663	847	1,019	1,041
Austria	n.a.	n.a.	8	11	15	17	16
Belgium	19	23	30	41	52	68	71
Denmark	n.a.	n.a.	2	3	4	4	4
France	52	62	80	104	127	153	147
Germany	12	15	19	23	24	24	24
Ireland	n.a.	n.a.	2	2	3	3	3
Italy	18	19	26	34	44	53	45
Luxembourg	30	39	54	72	96	106	109
Netherlands	19	24	30	40	49	56	57
Spain	3	4	5	7	11	13	13
Sweden	3	3	3	3	9	12	12
Switzerland	18	21	26	37	38	37	35
United Kingdom	178	202	231	287	377	473	505
B. Net	203	247	300	377	475	575	590
NON-EUROPEAN MARKET							
C. Gross	134	184	223	283	351	445	474
Bahamas & Caymans	62	91	106	124	139	158	165
Bahrain	2	6	16	23	28	38	40
Canada	14	17	18	22	26	36	34
Hong Kong	8	12	14	19	24	33	35
Japan	20	22	22	34	45	66	75
Kuwait	2	2	3	4	5	7	7
Lebanon	2	2	2	2	3	3	3
Netherlands Antilles	0	1	2	3	5	7	7
Panama	8	10	10	19	32	34	35
Philippines	1	1	1	2	2	3	4
Singapore	13	17	21	27	38	54	65
U.A.E.	2	3	2	3	4	6	6
D. Net	54	74	87	110	136	173	184
TOTAL WORLDWIDE EUROCURRENCY MARKET							
E. Gross (A + C)	485	594	739	945	1,197	1,464	1,514
F. Net (B + D)	259	321	387	487	611	748	774

Totals may not add due to rounding.

*Provisional.

Source: Grindlays Bank.

(Continued on Page 8S)

EUROMARKETS

INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
PARIS, NOVEMBER, 1981

PART II

A SPECIAL SUPPLEMENT

Budget Deficits And World Markets

By S.J. Lewis

LONDON — One of the most important consequences of the rise in oil prices in the 1970s is also one of the least noticed. The governments of the major industrial nations, which prior to the first oil price shock in 1973 had typically aimed at, and often achieved, balanced budget positions, have come to regard budget deficits as normal. Deficit financing has been both a reflection of, and a policy response to, the depressed economic conditions in the industrial countries that have been partly brought about by the rise in oil prices.

Although the current U.S. administration aims to balance the federal budget by 1984, the measures it has taken so far do not promise to achieve this target. In any case, the federal deficit in recent years has represented a declining proportion of total U.S. government financing requirements, as the activities of off-budget agencies have expanded. In Europe, governments have even gone to the length of giving up the objective of balancing their budgets. Governments have increasingly competed with private sector borrowers in domestic financial markets, driving up interest rates in the process, while the international markets have grown to accommodate credit demands that could not be satisfied from domestic sources.

This trend is set to continue in the year ahead. In Table 1 (see continuation of article), we show the Phillips & Drew forecast of the fiscal deficit to be incurred by the governments of the major industrial countries in 1982, compared with an estimate for 1981 and the turnout in 1980.

The figures shown for the United States include transactions of federal agencies, state and local governments, while the West German figures comprise federal and local government operations. International comparisons of budget deficits are more often than not misleading, because the scope of the government sector varies between countries. Nevertheless, the trend in the budget deficit in each country is significant. In 1982, the deficits in Japan, West Germany, Canada and Britain are set to fall, on the basis of present policies. In the United States and France, on the other hand, government deficits are likely to be higher in 1982 than they have been this year.

This is not the whole story, however. A rising budget deficit does not represent an extra burden on domestic financial markets provided that domestic savings rise to the same extent. It is the balance be-

(Continued on Page 12S)

London Gears Up for Financial Futures Mart

By Michael Jenkins

LONDON — Forward transactions have been used for many years to limit risk. The Eurocurrency market, in particular, has created special arrangements — for example, forward transactions — to insulate participants against the volatility of Eurodollar interest rates.

Similarly, swaps enable participants to cover their exchange rate exposure. But the advent of futures markets offers additional advantages and greater flexibility. Many of the attributes of a futures contract are similar to a forward contract — both parties undertake to buy or sell a specific instrument (e.g. gilt-edged stock), or a currency, on a known future date at a specific price. However, a futures contract differs from a forward contract in that it is standardized and is traded on a recognized exchange.

This characteristic, together with the central role of the Clearing House as guarantor of all contracts, facilitates an active secondary market enabling buyers and sellers to close out their positions before the contract matures. This highlights one of the features of futures markets — delivery is rarely made. The buyer is not normally interested in taking delivery; his concern is to hedge a position in the cash market by an equal and offsetting position in futures. Therefore if the price in the cash market changes, any losses he incurs will be offset by a gain from his futures position.

During 1980, a working party examined the feasibility of establishing a market in London and its proposals were widely discussed and supported. In February of this year, the Bank of England approved the plans in principle, and in May the London International Financial Futures Exchange (LIFFE) invited applications for the first tranche of about 200 seats. The successful applicants — the invitation was heavily oversubscribed — represent a wide spectrum of the financial sector, with about a third representing the banking community, a further third commodity firms and the remainder drawn from stockbrokers, money brokers, discount houses and individuals. A second invitation will be made next January when a further 185 seats will be on offer. Trading will start next autumn.

The structure of the Exchange and the contracts to be traded have been designed specifically for the London market. The rules will reflect local laws and practice, and clearing will be undertaken by the International Commodity Clearing House, an independent clearing organization which has international experience in many futures.

(Continued on Page 12S)

Our exclusively-designed leather pocket diary is thin, flat and elegant.

N.Y. Birth Of IBFs Is Awaited

(Continued from Page 75)

IBFs are likely to attract a significant amount of Euromarket business to New York, and it is also likely that some business will be transferred from U.S. banks' domestic books to their IBF accounts.

The Euromarket centers most likely to suffer from the expansion of IBF business in New York will be the "brass plate" branches of U.S. banks in the Caribbean. The Bahamas and the Cayman Islands together account for about 11 percent of worldwide Eurocurrency business, and the bulk of this represents transactions actually managed in the United States but labeled "Nassau" or "Cayman" in the banks' books.

The transfer of this business to an IBF, whether it be in New York or in one of the other states that have passed legislation similar to New York's (Connecticut, Florida, Georgia, Maryland and North Carolina), will require little more effort than the stroke of a pen. Its impact on the economies of the Bahamas and Caymans will be slight, relatively few local jobs are created by the quantitatively large volumes of business that is, on paper, channeled through the islands. Moreover, it is unlikely that the U.S. banks will close their Caribbean operations entirely; they will want to maintain a presence there as a precaution against a possible tightening of the IBF regulations at some future date.

Serious Consequences

But the possible loss of business to U.S.-based IBFs from other Euromarket centers could have more serious consequences, since these are genuine business centers rather than mere "brass plate" operations. Since their inception in the late 1950s the Euromarkets have been dominated by London. Despite frequent claims during the last two decades that its pre-eminence would quickly be eroded by the development of rival centers in the stronger economies of Continental Europe, and subsequently by the appearance of newer regional centers such as Singapore and Bahrain, London still accounts for no less than one-third of the entire market. It is true that this market share did slip rapidly from over 40 percent in 1974 to 30 percent in 1978, but since then London's Eurocurrency business has expanded rapidly again.

London has tremendous advantages compared with most other would-be Euromarket centers: inter-relationships with other markets (especially foreign exchange), good communications, strong

Table 2: Shares in the Worldwide Eurocurrency Market

(Percentages, End of Period)

	1975	1976	1977	1978	1979	1980*	1981† (March)
EUROPEAN CENTERS	72.4	69.1	70.0	70.1	70.7	69.6	68.7
Austria	n.a.	n.a.	1.1	1.1	1.3	1.1	1.1
Belgium	3.9	3.8	4.1	4.3	4.3	4.6	4.7
Denmark	n.a.	n.a.	0.3	0.3	0.3	0.2	0.2
France	10.6	10.4	10.8	11.0	10.6	10.5	9.7
Germany	2.4	2.6	2.5	2.4	2.0	1.6	1.6
Ireland	n.a.	n.a.	0.2	0.2	0.2	0.2	0.2
Italy	3.6	3.1	3.6	3.6	3.7	3.6	2.9
Luxembourg	6.2	6.6	7.4	7.6	8.0	7.3	7.2
Netherlands	3.9	4.0	4.0	4.2	4.1	3.8	3.7
Spain	0.7	0.6	0.6	0.8	0.9	0.9	0.9
Sweden	0.5	0.5	0.4	0.4	0.7	0.8	0.8
Switzerland	3.7	3.5	3.6	3.9	3.2	2.5	2.3
United Kingdom	36.9	33.9	31.4	30.3	31.5	32.3	33.3
NON-EUROPEAN CENTERS	27.6	30.9	30.0	29.9	29.3	30.4	31.3
Bahamas and Caymans	12.8	15.2	14.4	13.1	11.6	10.8	10.9
Bahrain	0.4	1.0	2.1	2.5	2.3	2.6	2.6
Canada	2.8	2.9	2.5	2.4	2.1	2.4	2.2
Hong Kong	1.7	2.0	1.9	2.0	2.0	2.2	2.3
Japan	4.2	3.6	2.9	3.6	3.8	4.5	4.9
Kuwait	0.4	0.4	0.4	0.5	0.4	0.5	0.4
Lebanon	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Netherlands Antilles	0.0	0.3	0.3	0.3	0.4	0.5	0.5
Panama	1.7	1.7	1.9	2.1	2.7	2.3	2.3
Philippines	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Singapore	2.6	2.9	2.8	2.9	3.2	3.7	4.3
U.A.E.	0.4	0.4	0.3	0.3	0.3	0.4	0.4

Totals may not add, due to rounding.

*Provisional.

Source: Grindlays Bank.

Table 3: Possible Shifts in Geographical Location of the Eurocurrency Market

(Percent Shares of Gross Worldwide Market)

	1981 (March)	1985	1990
United Kingdom	33	25	20
Bahamas & Caymans	11	5	2
USA	—	12	18
Other Centres	56	58	60
TOTAL	100	100	100

Source: Grindlays Bank

backup services (such as legal advisers) and above all a convenient time-zone location and first-class backroom staff. New York can match London in most of these areas, and the strength of its foreign exchange market is a particular advantage. London's time location, with its overlap with the business days in both Singapore and the Middle East as well as in New York, cannot be matched. But New York and Miami share time zones with Latin America, and the U.S. West Coast could attract Far Eastern business for similar reasons.

David F.B. Ashby is group chief economist of Grindlays Bank.

Banker Sees Rise in Mark

WASHINGTON — Walter Seipp, chairman of the Commerzbank, expects the Deutsche mark to go up against the dollar, reaching 2.20 to 2.30 DMs to the dollar before the end of the year.

Mr. Seipp added that the mark would also move up against the French and Belgian francs, the Danish krone and the Italian lira inside the European Monetary System.

The mark's recovery follows its recent slide against the pound, yen and dollar, which boosted West German export competitiveness. By mid-1981, export orders were up 19 percent from the mid-1980 level, Mr. Seipp said. "The boost to the trade balance will bring down the large deficit on current account," he added, "with a subsequent favorable impact on German interest rates, following major increases at the end of last year, culminating in the introduction of a special 12 percent Lombard rate by the Bundesbank this February."

The inverted structure of interest rates over 26 months, with short-term rates lower than long-term ones, had caused major difficulties to banking and business, he pointed out.

Current Account

Commerzbank's forecasters, Mr. Seipp said, see West Germany's current account deficit dropping from 30 billion DM in 1980 to 22 billion DM in 1981, and 10 billion to 15 billion DM in 1982, with a sharp drop in oil consumption being a key factor. The public sector deficit, up from 56 billion DM in 1980 to reach 72 billion DM in 1981, would decline to 62 billion DM in 1982.

But unemployment, inflation and falling profits will continue to pose problems, he warned. Real gross national product, according to the Commerzbank's calculations, could actually drop 1 percent in 1981, but increase by 2 percent in 1982.

With 600 million DM in unguaranteed loans to Poland, Commerzbank is probably among the most highly exposed of West German banks, but Mr. Seipp said he was confident that arrangements would continue to be made enabling Poles to pay interest on foreign loans, while postponing repayment of principal.

— VANYA WALKER-LEIGH

Italian Bank System Seen Gasping for Air

By Barbara Donnelly

ROME — The Italian banking system, choked by a remarkable variety of bureaucratic and credit restraints and pressed by higher demand from the free-spending state sector, is gasping for air.

For the third year in a row, deposits are evaporating as customers, savoring about protecting themselves from the country's 20-percent inflation rate, have shifted funds into durable goods and high-yielding treasury notes.

The 12.7-percent nominal growth of deposits last year was only half what it was in 1975. This year, aggressive competition from treasury instruments has pared the nominal rise to 8.7 percent.

"Even the pensioners don't come to us any more," lamented the director of one small provincial bank. "And to think that up to only two or three years ago they would line up with their hats off and were content with an interest rate of 3 percent."

Three factors mainly account for the change in the pattern of money flows that has cut banks' share of overall financial savings to 52.2 percent last year from a peak of 58 percent in 1974.

First was the sharp rise in Italy's inflation rate. This was followed by the government's ineffectual at-

tempt to curb the rise by changing the way it financed its huge budget deficit rather than cutting the size of its debt. Finally, greater economic insecurity made savers wary of tying up funds for long periods of time, which led to a drying up of the domestic market for long-term capital.

The government stepped in to take advantage of the shifting capital flows by floating high-yielding tax-exempt and short-term treasury bills. The share of the total flow of money absorbed by treasury securities ballooned from zero in 1974 to 30 percent six years later. The volume of treasury bills currently in circulation, excluding the quota held by the central bank, amounts to more than \$2 trillion.

What has many analysts worried is how the government will finance its projected budget deficit.

The government has estimated its borrowing requirement at \$50 billion in 1982. However, private forecasters say the deficit may top \$55 billion this year.

At a recent exchange rate, next year's deficit will be in the order of \$45 billion, which makes the problems of financing the U.S. budget deficit seem small in comparison.

Yields on the tax-exempt bills range close to 20 percent, about double the average after-tax yield on bank deposits. The erosion of deposits in favor of treasury bills is slowly forcing a breath of innovation into Italy's underdeveloped banking system.

At first glance, the Italian banking system would seem to offer customers a wide range of options and services. The country has about 1,070 banks, subdivided into commercial banks, savings banks, rural banks, cooperatives, medium-term and special credit institutions. They range from the big state-owned Banca Nazionale del Lavoro, whose deposits amount to about 40 trillion lire, to local credit institutes with less than 20 billion lire.

But the system is fragmented and idiosyncratic. Its operation is guided less by a model of a modern market than by rigid and outmoded laws designed to rescue industry after the crash of 1931. The Banking Act is based on the concept that savings and investment are a function of public interest and should be overseen by the state.

As a result, the hand of the state is heavily felt in the banking industry, with public sector or state-affiliated institutions controlling an estimated two-thirds of the entire banking system and nearly 80 percent of all lending.

As top banking jobs are political plums and therefore vulnerable to party pressures, credit distribution has historically been marked by

as little incentive to upgrade services or offer favorable interest rates.

EUROMARKETS

corruption and waste, while the system itself remains resistant to change.

Three of the top five banks — Banca Commerciale Italiana, Credito Italiano and Banco di Roma — are controlled by the giant state industrial conglomerate Istituto per la Ricostruzione Industriale (IRI), which was born from the crash of 1931. Of the top 15 banks, 11 are controlled by the government, which often foists the government's financial burdens of failing state industry onto them.

The scarcity of risk capital has also caused the banking sector to play an exceptionally important role in corporate finance. Long-term lending to industry by regulation tends to be concentrated in the hands of seven or eight of the leading medium-term and special credit institutions.

Despite inflation-spurred investment in durable goods or other savings instruments, the savings rate of the average Italian family as a quota of income still is second only to the Japanese.

The leading savings bank, Cassa di Risparmio delle Province Lombarde (Cariplo), and the leading cooperative bank, Banca Popolare di Novara, are among the world's largest.

The scarcity of risk capital has also caused the banking sector to play an exceptionally important role in corporate finance. Long-term lending to industry by regulation tends to be concentrated in the hands of seven or eight of the leading medium-term and special credit institutions.

Expanded Activities

Among the most active in the sector are Istituto Mobiliare Italiano (IMI), the industrial financing arm of the government, and Iriamer, the development bank for the depressed southern Mezzogiorno region. The four medium-term credit institutes — Mediobanca, Efibanca, Interbanca and Centrobanca — also play an important role. Among the smaller regional credit institutes, the leading Mediocredito Regionale Lombardo has remarkably expanded its activities in the sector over the past few years.

Though it is generally realized that Italy's strict banking regulations, especially those involving long-term credit, need thorough overhauling, progress is slow and inadequate to meet the needs of the increasingly sophisticated Italian market. There is strong resistance to change from those who feel favored by existing regulations.

But the erosion of deposits and narrowing profit margins particularly among commercial banks, are forcing banks to boost efficiency and competitiveness. A new range of "para-banking" services are flourishing in Italy under the aegis of single banks or consortia. Among the leaders of the trend are Banca Nazionale del Lavoro's leasing and factoring unit. Banks' acceptances, which until recently were tax-exempt, also have been booming.

There is still a long way to go for Italian banks to become fully part of the industrialized world, bankers admit. Besides market pressures, a European Economic Community ruling that will impose free competition on the system by the end of the decade may help things along.

Barbara Donnelly is a Rome-based financial journalist.

All these Bonds have been sold. This announcement appears as a matter of record only.

All these Bonds have been sold. This announcement appears as a matter of record only.



Municipal Finance Authority of British Columbia

(Province of British Columbia, Canada)

54,000,000 U.S. Dollars
Retractable Bonds

Retractable at par at the option of the holder on October 28, 1985, 1989 and 1993, and payable in full on October 28, 1997.

Interest Rate: 17% until October 1985 and thereafter as determined by the Issuer on October 28, 1985, 1989 and 1993.

J. H. Hanna

Eurodollar FRNs: Judging Performance

By Jeffrey Hanna

NEW YORK — In recent years, international bond markets have been buffeted by a seemingly inexorable upward trend in interest rates, which has produced severe losses in bond capital values. Virtually all international sectors — Eurobonds and foreign bonds denominated in the principal currencies — set postwar yield records in 1980 or 1981. The net result is that total return performance (including income, bond price changes and currency gains or losses) has been abysmal.

Chart 1 shows the performance of the Salomon Brothers World Bond Index and World Money Market Index since their Jan. 1, 1978, inception. On a cumulative basis, the World Bond Index is up only 0.5 percent in U.S. dollar terms in 45 months, equivalent to a compound annual return of about 0.1 percent per year. Even the best performing international sector — Euroyen bonds — generated a compound return of only 3.7 percent per year in U.S. dollar terms. With 20-20 hindsight, the margin of the past four years in all currency sectors should have been: "Keep your money short."

Money market instruments in all eight currencies substantially outperformed bonds. The Salomon Brothers World Money Market Index (Chart 1) provided a com-

pound annual return of 10.0 percent in U.S. dollar terms. For the period since January 1, 1978, U.S. dollar-denominated instruments turned in the highest money market returns, as they benefited from high average levels of interest rates, and from the strength of the U.S. dollar versus other major currencies.

Three-month Eurodollar deposits generated a 13.1 percent annual return. Eurodollar floating rate notes, which pay a spread (generally 1/4 percent) above London interbank offered rate (Libor), provided the best returns of any short or long-term instrument denominated in the principal eight currencies in the period since January 1, 1978. Floaters earned a compound annual return of 14.2 percent per year.

Although cumulative returns of the major international sectors were uniformly abysmal for the 45-month period under review, there were numerous bright spots over shorter time horizons. In 1978, total returns of the Japanese and continental European markets ranged from about 20 percent to 30 percent, measured in dollar terms. Similarly, sterling denominated bonds did well in 1979-1980, and yen bonds turned in a sparkling performance in 1980, at a time when the dollar and Deutsche mark markets provided low or negative returns.

Wide year-to-year variations in performance appear to be a deeply engrained characteristic of the international fixed income markets, especially in the volatile interest rate and currency environment of recent years (see table). One implication of these substantial short-term variations is that active portfolio managers could, in theory, materially enhance returns via strategic portfolio shifts from sector to sector. In practice, accurately timed adjustments in portfolio weightings are difficult to achieve, but at the very least, diversification across a number of markets should provide some protection

against the sharp swings of any individual sector.

The principal determinant of relative market performance over short horizons is the currency factor. This point is illustrated by the table, which gives the portion of total return generated by currency movements for each calendar year beginning 1978. It is evident from the table that strong total return performance is almost invariably associated with sharp currency gains, and vice-versa.

Currency fluctuations are the principal cause of year-to-year variations of performance in dollar terms for the different sectors. A prime example is the Euroyen market: Returns soared from +30.3 percent in 1978, to -24.0 percent in 1979 on the back of the yen's weakness in foreign exchange markets, then rebounded to +23.3 percent in 1980 as the yen surged 17.8 percent against the dollar.

The cumulative currency impact from the point of view of a dollar-based investor is shown in Chart 2, which plots the World Bond Index in both local currency and U.S. dollar terms. The area between the two lines represents currency gain or loss.

Of course the advantages that persuaded the big banks of West Germany, Scandinavia, Switzerland and the United States to set up operations in Luxembourg have not lost any of their luster. Officials still make the same proud claim that no other country is so free of governmental meddling.

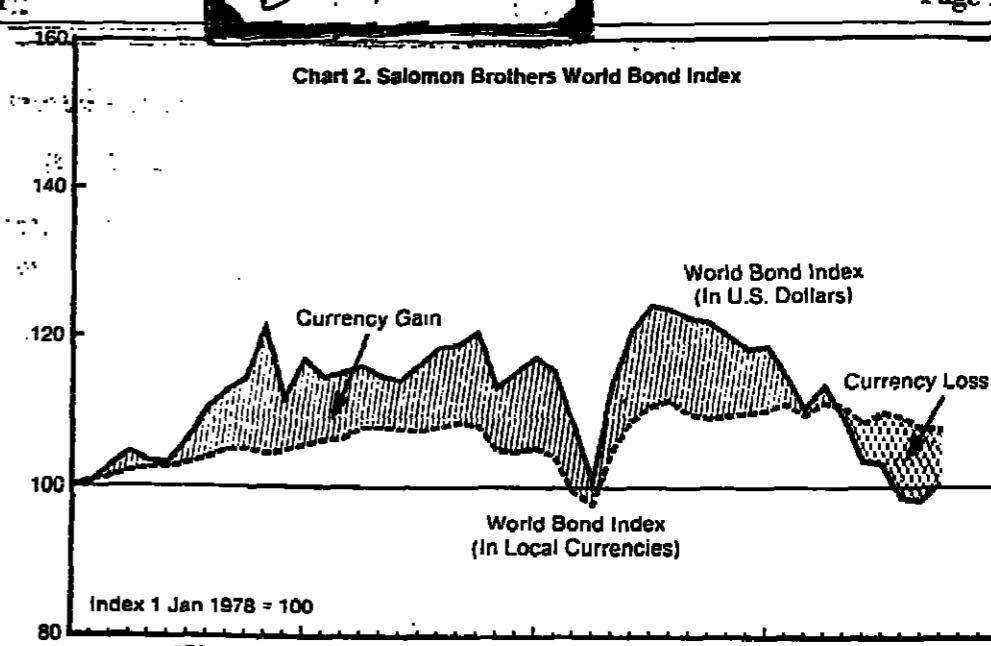
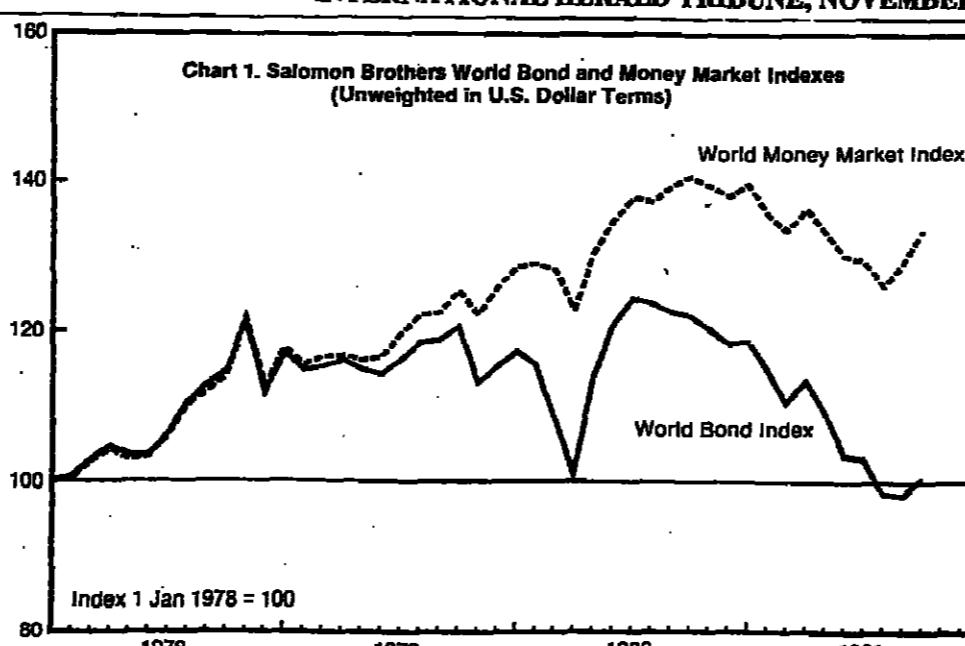
Moreover, they point out, the sheer volume of business is growing faster than ever. The balance sheet total of the 113 banks established in the Grand Duchy has

not lost any of their luster. Officials still make the same proud claim that no other country is so free of governmental meddling.

International bond market performance so far in 1981 has been a duplication of the pattern discussed above. From January to September, all international bond sectors show negative cumulative returns — again with the notable exception of Eurodollar floating rate notes. The British sterling sector, and to a lesser extent, the continental markets were especially hard hit by the declines of their respective currencies against the dollar.

Over a shorter time horizon, however, many non-dollar sectors have performed well during the past few months, as these currencies rallied in foreign exchange markets. For example, the Euro-DM and foreign Swiss franc markets generated total dollar returns of 7 percent to 8 percent for the month of September.

Jeffrey Hanna is a vice president and director of International Bond Research of Salomon Brothers Inc.



Luxembourg Bank Magic: Diversification

By Brent Bowers

LUXEMBOURG — The word that spells magic in Luxembourg banking circles these days is diversification. Banks increasingly are turning to activities such as money funds, gold trading, portfolio management, certificates of deposit and gold and silver certificates to help them ride out a profit crunch.

For the banking boom that made tiny Luxembourg one of Europe's three great financial centers has given way to a pause. High interest rates, as everywhere else, are biting into profit margins and cutting into the value of bond holdings.

Of course the advantages that persuaded the big banks of West Germany, Scandinavia, Switzerland and the United States to set up operations in Luxembourg have not lost any of their luster. Officials still make the same proud claim that no other country is so free of governmental meddling.

Moreover, they point out, the sheer volume of business is growing faster than ever. The balance sheet total of the 113 banks established in the Grand Duchy has

not lost any of their luster. Officials still make the same proud claim that no other country is so free of governmental meddling.

International bond market performance so far in 1981 has been a duplication of the pattern discussed above. From January to September, all international bond sectors show negative cumulative returns — again with the notable exception of Eurodollar floating rate notes. The British sterling sector, and to a lesser extent, the continental markets were especially hard hit by the declines of their respective currencies against the dollar.

Over a shorter time horizon, however, many non-dollar sectors have performed well during the past few months, as these currencies rallied in foreign exchange markets. For example, the Euro-DM and foreign Swiss franc markets generated total dollar returns of 7 percent to 8 percent for the month of September.

Jeffrey Hanna is a vice president and director of International Bond Research of Salomon Brothers Inc.

Consequently, he said, "banks have been led to diversify their activities into such areas as investment banking and insurance."

Another banking specialist confirmed the profits slump, although he said the picture varies widely from bank to bank. "It's a very competitive market now," he said. "The days of pioneer profits are gone."

Perhaps the initiative that drew the most international attention this year was the establishment of a Luxembourg gold market by the Banque Internationale, Kreditbank, the Compagnie Luxembourgeoise (owned by Dresdner Bank), the Banque Nationale de Paris and the Caisse d'Epargne de l'Etat (State Savings Bank). In March, the Luxembourg stock exchange began holding daily gold fixings.

François May, assistant management counselor to the State Savings Bank, claimed that the introduction of the market showed that the authorities are eager to "consolidate" what has been acquired. "Gold markets still further the attractive image presented by Luxembourg to the financial and economic world," he said.

Money Funds

He did not have to add that the success of the market has been enhanced by the lifting of taxes on gold transactions and the subsequent imposition of such levies in Belgium, to the consternation of the Brussels bourse, as well as by new restrictions on trading in the previous capital in Paris.

Mr. Muhlen said he could not divulge details of the operations, but he said that the "volume is developing favorably."

The other big innovation this year was the establishment of American-style money market funds by the U.S. brokerage firm Shearson Loeb Rhoades.

A specialist at the Banque Internationale a Luxembourg, which helps administer the fund, claimed

it was the first fund of its kind in Europe, although Paribas Belgique has begun a similar program.

Although Luxembourg trails far behind London and Zurich in this activity, some wealthy customers are said to be happy to be able to spread out their holdings more widely. Luxembourg's costs are generally lower, and its banking traditions make unlikely the imposition of capital controls like those that have been tried in Switzerland.

The new emphasis on diversification should not obscure the overwhelming importance of Euro-currency transactions in Luxembourg, which has increased its share in all Eurodeposits received by banks to nearly 12 percent and its share of Eurocredits to the non-banking sector to 25 percent.

In 1980, over 21 percent in volume of all Eurobond issues were managed or co-managed by Luxembourg banks.

Tax Agreements

The reasons for the growth are numerous, but at the top of the list is freedom from government controls. The West German banks moved in originally to escape reserve requirements back home. Scandinavian banks came to avoid restrictions on forward trading and so on.

Luxembourg has negotiated or intends to negotiate double taxation agreements with Italy, Denmark, Spain, Portugal, Morocco, and a lot of other countries," Mr. Muhlen said.

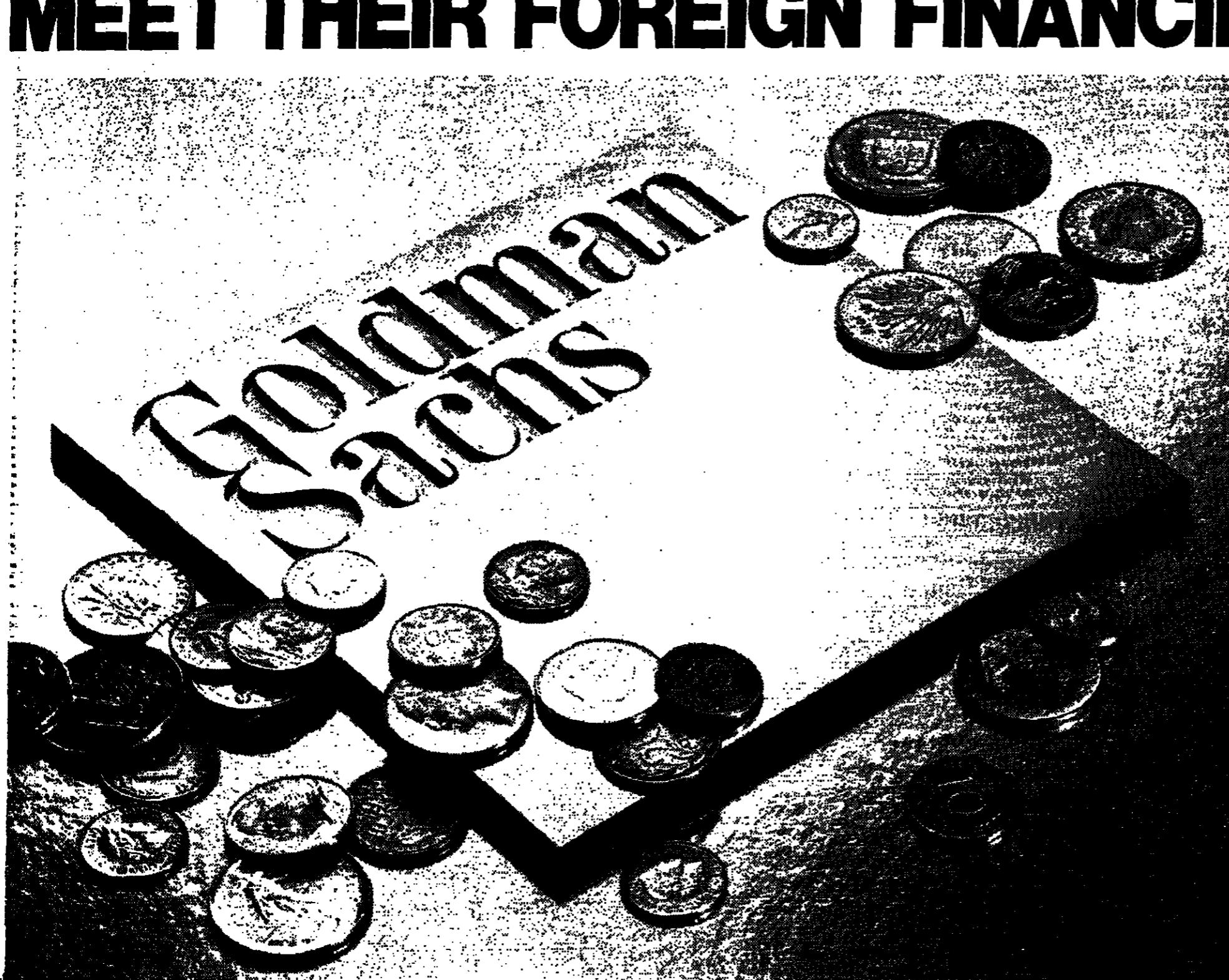
The duchy also permits all kinds of banking operations, has strengthened its already tight secrecy laws, and shows "flexibility" in applying legal regulations.

Mr. Muhlen said the banks are undergoing a "consolidation" phase that "could last into 1982 and beyond."

Brent Bowers is a financial writer based in Brussels.

Total Return Performance of International Bond and Eurodeposit Markets (Percentages, in U.S. Dollar Terms)								
	1978	1979	1980	1 Jan-30 Sept. '81				
	Total \$ Return	Currency Return	Total \$ Return	Currency Return	Total \$ Return	Currency Return	Total \$ Return	
U.S. DOLLAR								
Foreign \$ Bond	3.0	—	—2.3	—	—1.3	—	—8.5	—
Eurodollar Bonds	2.9	—	0.5	—	4.6	—	—3.5	—
Eurodollar FRNs	10.5	—	13.0	—	13.7	—	16.1	—
Eurodeposits	8.6	—	12.2	—	14.7	—	13.5	—
CANADIAN DOLLAR								
Euro CS Bonds	—4.6	—7.6	2.5	1.1	4.2	—1.9	—1.6	—1.1
Eurodeposits	0.4	—7.6	13.3	1.1	11.5	—1.9	12.5	—1.1
DEUTSCHE MARK								
Euro-DM Bonds	22.1	15.0	4.9	5.6	—11.6	—12.2	—15.4	—15.6
Eurodeposits	18.9	15.0	11.8	5.6	—3.9	—12.2	—8.0	—15.6
YEN								
Samurai Bonds	31.2	22.9	—23.0	—18.8	26.4	17.8	—11.6	—12.6
Euroyen Bonds	30.3	22.9	—24.0	—18.8	23.3	17.8	—6.1	—12.6
Eurodeposits	29.6	22.9	14.0	—18.8	31.6	17.8	—6.0	—12.6
U.K. STERLING								
Eurosterling Bonds	3.3	6.1	17.7	8.9	16.3	7.7	—24.0	—24.7
Eurodeposits	16.7	6.1	24.3	8.9	27.1	7.7	—16.9	—24.7
SWISS FRANC								
Foreign Sfr. Bonds	29.0	22.2	—1.1	1.8	—9.1	—10.4	—15.4	—10.0
Eurodeposits	23.5	22.2	3.1	1.8	—5.1	—10.4	—4.3	—10.0
DUTCH GULDEN								
Foreign DH. Bonds	21.9	14.8	7.5	3.9	—5.8	—10.8	—15.9	—17.7
Euro DH. Bonds	22.2	14.8	7.2	3.9	—4.3	—10.8	—18.8	—17.7
Eurodeposits	21.7	14.8	13.3	3.9	—0.5	—10.8	—10.7	—17.7
FRENCH FRANC								
Euro Fr. Bonds	31.2	12.1	1.3	3.8	—6.7	—11.4	—19.8	—18.5
Eurodeposits	24.5	12.1	15.3	3.8	0.8	—11.4	—8.5	—18.5

GOLDMAN SACHS CAPABILITY: HELPING MULTI-NATIONAL COMPANIES MEET THEIR FOREIGN FINANCING NEEDS.



If your company does business internationally, you need an investment banker with worldwide financing capabilities. At Goldman Sachs, we have placed strong emphasis on international financing for many years.

In the past five years, we have helped U.S. and overseas clients raise over \$10 billion through international public offerings and private placements. Sizes ranged from under \$5 million to \$600 million and represented many of the world's major currencies.

And when traditional financing methods won't adequately meet our clients' needs, the 29 international financing specialists on our staff search for new methods. Often, we find them first.

We offer help with international merger, acquisition and divestiture transactions. With specialized Eurobond and Eurocurrency financings. With parallel loans, currency swaps and medium-term currency contracts. And much more.

What are your company's international financing plans? We would be glad to show you how Goldman Sachs' uncommon capability can help make them work.

Goldman Sachs
International Corp.
London Tokyo

Goldman, Sachs & Co.
New York Zurich

Goldman
Sachs

Uncommon Capability

Dollar's Dominance Raises Questions Over Currency Rates in 1982

By Richard Rae

LONDON — The overwhelming dominance of the U.S. dollar this year raises questions about the prospects for world currencies and interest rates in 1982.

After a decade of neglect, the dollar once again became the darling of the international investment community, pushing aside the old favorites, the Swiss franc and the Deutsche mark. At one stage, sterling — classed briefly as a petrocurrency — also rivaled the dollar. But it lost strength when the world found itself with an oversupply of oil.

The dollar's dominant position is underlined by its exchange-rate improvement against the Deutsche mark of 17 percent, the Swiss franc of 6 percent and sterling of 24 percent to date. The interest-rate advantage bolstered the dollar throughout the year.

To determine whether the dollar will continue to find favor among investors, or whether one of its European counterparts will make a comeback, a closer look at the respective countries' economies and their projected performance over the coming year is helpful. A comparison of monetary policies, trading and current accounts, budgetary strategies and political stability presents the following picture.

The Reagan Approach

The Reagan administration's efforts to cool down the U.S. economy appear to have produced some of the desired results. Through tight fiscal policies, the Federal Reserve Board has throttled consumer spending and reduced economic activity — but to such a degree that the true free-trading principles advocated by the Reaganites seem unworkable in this climate of severe credit controls and mushrooming current-account deficits.

The limited success the fiscal controls have had — reducing the inflation rate to 10.9 percent at the end of August from the preceding year's 13.5 percent — is aggravated by a trading account deficit that is expected to grow from \$28.75 billion at the end of September to \$40 billion at the end of the year.

In addition to the growing current and trading account deficits, the budget shortfall presents a major headache for a U.S. government elected partly on the promise of lower personal taxation and free trade.

With this year's federal deficit projected as high as \$100 billion, wildly overshooting the government forecast of \$43 billion; and next year's officially projected shortfall of \$40 billion contrasting sharply with independent estimates that are far higher, the prospects for a sustained period of lower interest rates are gloomy.

Refinancing on Borrowing

The burden of paying unemployment benefits to 3 percent or more of the labor force, of lower tax revenues due to the receding economy, and of a substantial in-

crease in military spending by President Reagan has forced the Treasury to rely on borrowing its way out of the ever-increasing deficit, rather than raising taxes, which would run contrary to the administration's embattled "supply-side" approach to economics.

In addition, the high level at which the inflation rate has leveled off forms an unsuitable base from which to refute economic activities in the coming few years.

With this in mind, the dollar looks unlikely to weaken significantly in the coming year, because high interest rates are expected to continue.

The positive return on dollar investments over the rate of inflation this year underpinned the currency. This contrasted sharply to the negative real returns over the last 10 years, a period accentuated by the declining value of the U.S. currency.

Dollar Still Attractive

For investors who at the beginning of this year chose to trade in their pounds, sterling, Deutsche marks or Swiss francs for dollars, 1981 was rewarding. And the return of fixed-interest investments denominated in any of these currencies favored dollar securities, which at the beginning of the year gave excess returns of 4 percent over the Deutsche mark, 8 percent over the Swiss franc and matched those on pounds sterling.

The income advantage has diminished but still makes dollar deposits or bonds a more attractive investment. As the prospects are less appealing for the coming year, some diversification of dollar investments is advisable. Sterling, as an alternative, looks unsuitable, as interest-bearing securities in this currency have become dependent on developments in the United States.

The dollar's strength of the past two years mirrored the current-account surplus from early 1979 to the first half of 1981. However, with the current account due to return to red figures in the second half of this year and expected to deteriorate in 1982, the omens for the dollar in the coming year look unsettled at best.

The problems facing the U.S. administration have been experienced in Britain during the past two years but were further compounded this year by the influence of high U.S. interest rates. With the benefits of North Sea petroleum production evaporating due to the oil glut, sterling once again fell under the influence of dollar interest rates, despite the success of the Thatcher administration in reducing inflation from 18 percent last year to 11.4 percent at present.

With British interest rates on a steady decline during the past two years, the reversal came as a rude awakening to domestic industry, which had benefited from the decline in U.K. interest rates and even begun to prosper from sterling's strength. The erosion of sterling's inflated position in the international currency markets mir-

rored the rise in interest rates of other major currencies, ultimately forcing British interest rates up in defense of the currency.

Trade Surplus

The domestic economic picture reveals the dramatic impact Prime Minister Margaret Thatcher's hard-line monetarist policies have had on business activity and employment. The trading account, which last year moved into the black, continued to improve this year at a record pace. A surplus of \$4 billion is expected by the end of 1981.

The improvement contrasts with that of other industrialized countries which last year grappled with record trading deficits due to the sharp rise in oil prices. The outlook in this respect remains positive for Britain, again due to domestic oil production and artificial dampening of consumer demand through high unemployment.

As in the United States, the benefits of tight money have been reflected in a lowering of the Minimum Lending Rate, before its abo-

lition in August this year, from 17 to 12 percent, a reduction of the inflation rate to 11.4 percent and continuing cutbacks in government spending.

But, as in the United States, the government deficit is proving to be a Gordian knot. The burden of providing support for more than 3 million people without jobs is unlikely to diminish. Coupled with the increase in military spending — another parallel to the United States — it appears likely to force British taxes up in contradiction to the government's original economic

policy of reducing the size of the state.

Borrowing Requirements

With public sector borrowing requirements expected to total £13.3 billion, overshooting the official forecast of £11 billion, the budget deficit is unlikely to improve in the coming year despite an official forecast of £10.5-billion deficit.

High interest rates will once again be used to maintain sterling's position in the world currency markets even if domestic needs require the opposite.

Sterling should remain steady against the dollar in a range of \$1.80-\$2.00. Sterling interest levels should move in line with those across the Atlantic, assuming that the Thatcher government does not follow France's example of creating a two-tier interest system for domestic and international capital requirements.

In view of the matching yields that fixed-interest investments offer sterling-based investors, only the dollar's currency appeal is retained. Following this year's dollar appreciation of 24 percent, the Deutsche mark's gain of 10 percent and the Swiss franc's 18-percent rise against the British currency, diversification out of sterling would seem unlikely to be of great interest to U.K. investors in the coming year.

Further Slippage

According to Phillip's and Drew's World Investment Review, the Swiss currency will be at 3.28 against sterling by the end of 1982 compared with the current 3.43.

The prospects for the dollar and

the Deutsche mark, currently at \$1.82 and 4.17 DM, are also viewed as less bright.

Developments in the German

fixed-interest markets also reflect

the influence of the dollar.

Despite the strong slowdown in business, the Bundesbank has maintained a tight money policy aimed at reducing inflation and supporting the mark in foreign-exchange markets.

Though inflation rose from 5.3

percent last year to the current 6.6

percent, the central bank's policies

appear to be bearing fruit.

Nevertheless, the rising cost of unem-

ployment payments to 1.3 million

people and of diminishing tax re-

ceipts continue to unbalance the

federal budget.

The deficit was

projected initially at 26.3 billion

DM, but now it is expected to

reach 35 billion DM.

The business outlook for 1982

appears favorable.

German indus-

try has adjusted to rises in raw

material costs and is again ready to

return the trading balance to a

healthy surplus this year.

The current

account, on the other hand,

appears unlikely to show any sig-

EUROMARKETS

Significant improvement, with this year and a sharp decline from mid-1982 on. For Swiss-franc holders, 1982 appears likely to offer good capital appreciation opportunities in the bond markets as the inflation rate declines.

Improving Prospects

For 1982, the improving export performance of German industry and the leveling off in raw material prices is expected to help the current account. With the federal government's funding requirements reduced by some severe spending cuts but counterbalanced by the unwavering monetarist policies of the Bundesbank, an easing in German interest rates will again be totally dependent on events in the international capital markets, particularly in the United States.

For DM-based investors, the 1982 exchange rate outlook favors investments in the local currency. Phillip's & Drew's end-of-year projections for 1982 show 2 DM against the dollar (from the current 2.30), 4 DM against the pound (now 4.17 DM) and 0.82 DM against the Swiss franc (now 0.83 DM).

The yield advantage held by sterling and the dollar are unlikely to compensate for the expected weakening of the two currencies against the Deutsche mark. The dollar's 17-percent appreciation in 1981 makes a switchback into the mark advisable, while sterling's 10-percent depreciation this year and the currency's outlook offer little incentive for DM holders to move into the British currency.

Finally, the 3-percent yield-deficiency Swiss franc bonds offer looks unlikely to be compensated in 1982 by the projected currency appreciation, leaving DM holders with only the domestic market to consider as a viable investment field.

Surplus Anticipated

The Swiss franc's fall from grace with international investors is, as in the Deutsche mark's case, a reflection of the rise in the country's inflation rate and the decline in real income in comparison with the dollar. Last year's current-account deficit of 905 million Swiss francs resulted from an increase in oil costs. This year, a surplus of similar size is anticipated. The outlook for the coming year is even more promising with a surplus of 2 billion Swiss francs projected.

The current inflation rate of 7.6 percent, up from 4 percent in 1980, is astronomical by Swiss standards. The sharp rise in the consumer price index reflects the additional burden of higher oil prices and the central bank's relaxation of monetary targets at the end of 1978 when export industries needed "cheap" currency support.

Latest indicators point to a peak in the inflation rate at the end of

the year and a sharp decline from mid-1982 on. For Swiss-franc holders, 1982 appears likely to offer good capital appreciation opportunities in the bond markets as the inflation rate declines.

Currency diversification

Currency diversification presents little scope for Swiss investors to benefit from the higher yield obtainable in sterling. The Deutsche mark or the dollar. The 6-percent 1981 improvement of the dollar against the Swiss franc would seem unlikely to be repeated.

Close Interdependence

The picture that emerges from the comparison of these four currencies and their respective economies is a close interdependence revolving around the dollar and Reagan economic policies.

With hard-line monetarists willing to free recessionary forces to contain inflation, not one of the four governments has been able to turn back the tide of social awareness that has swept over industrial countries since World War II. The fundamental cause of inflation — excessive government spending funded through increasingly more costly long-term borrowings — remains and has not been controlled.

With the governments in the United States and Britain pursuing virtually identical economic strategies, the choice of selecting one becomes simple. The dollar, the stronger of the two, will be favored as long as it has the backing of high interest rates. Sterling can only gain the edge if its petrocurrency appeal is restored through changes relating to world oil supplies and the Middle East.

The dependence of the German economy on events in the United States is unlikely to permit the German currency to show substantial gains over the dollar. The true income gap between the two currencies, currently around 2 percent, continues to favor the dollar but only for holders of the U.S. currency; the exchange rate outlook is likely to erode this advantage.

Finally, the Swiss franc is showing signs of regaining the "hard" currency status it has always held in times of crisis. Added to the country's determination to wipe out inflation in 1982, the Swiss franc appears to be the most appealing of the four currencies. With political stability at home and monetarist policies that seem to be working without costly rises in unemployment, the Swiss franc appears to be ready to take over the dominant position the dollar held this year.

Richard Rae is a financial journalist who is based in London.

IMF Meeting Casts Doubts on SDR Future

By Vanya Walker-Leigh

WASHINGTON — Mixed signals on the short- and long-term future of the SDR (Special Drawing Right) emerging from the International Monetary Fund's annual meeting cast doubts on where, if anywhere, this currency cocktail is headed, at least in financial dealings between nations.

Created in 1970 to serve as additional reserves held by IMF members with the fund, the SDR was slated to become a central feature of the international monetary system under an agreement adopted in 1978, and is the IMF's own unit of account.

So far, 21.4 billion SDRs have been distributed to members, up to their fund quota — 4 billion being allocated yearly for the last three years under the "third basic period." Ten institutions have been authorized to become "other holders" — the Andean Reserve Fund, the Arab Monetary Fund, the Bank for International Settlements, the East Caribbean Currency Authority, the World Bank and its affiliate the International Development Association, the International Fund for Agriculture Development, the Nordic Investment Bank and the Swiss National Bank. These holders, like fund members, can buy and sell SDRs spot and forward, borrow, loan or pledge SDRs, swap them or make grants. Unlike IMF members, however, they cannot receive allocations or use SDRs in transactions with "designations" (i.e., where one IMF member, designated by the fund, provides its currency in exchange for SDRs up to three times its cumulative SDR allocation).

Between 1970 and 1980, members made 33 billion SDRs worth of such transfers, also using SDRs in a series of other arrangements agreed with members, and in payment of one-quarter of the quota increase decided under the Seventh General Review of Quotas in 1980.

Talks Break Down

But negotiations to set up an SDR substitution account at the fund for members' surplus dollar holdings broke down in 1980, in the face of U.S. opposition as well as doubts of a number of Western nations.

This autumn, finance ministers were unable to agree to another allocation of SDRs for 1982. Demands by Third World ministers for a 12-billion-SDR handout were met by the flat refusal of the United States, Britain and West Germany as being unnecessary and inflationary, though a number of other Western countries, such as the Netherlands, Ireland, Italy, Scandinavia and Canada, thought there was a case for continuing the 4-billion-SDR a year allocation in force since 1978.

France's finance minister went further, urging that developing countries be given 75 percent of any further SDR distribution (instead of the 35 percent they get now, reflecting their share of total fund quotas).

A compromise decision of the fund's Interim Committee passed the problem back to the fund's Executive Board, but U.S. Treasury Secretary Donald Regan made clear that he would use the U.S. blocking vote at the fund to veto any 1982 allocation.

Third World nations' representatives angrily pointed out that between 1972 and 1981 SDRs had fallen from 7.2 percent to 3.6 percent of IMF members' total reserves, while the Eurodollar mass had ballooned from \$150 billion to \$1.5 trillion, with major trading nations showing no restraint in issuing their own currencies for international payments.

The SDR's longer-term role, under study by IMF working groups, also seems in doubt.

The Reagan administration, even more than its predecessor, does not seem to favor any move that might downgrade the dollar's pre-eminent international role. Beryl Sprinkel, undersecretary of the Treasury, points out that "SDRs were invented to finance a volume of world trade when the fixed exchange rate system involved reserve losses to countries with balance of payments deficits. Now such countries can either devalue, or borrow on the Euromarket, making SDRs less relevant."

Britain's chancellor of the Exchequer, Sir Geoffrey Howe, urged that central monetary institutions consider assuming a developing obligation both to hold SDRs or SDR-denominated assets, and to avoid destabilizing movements between component currencies, the IMF should also study the increase use of SDRs in private and official financial transactions. Several other Western finance ministers at the IMF meeting also wanted an enhanced role for SDRs, without going into details.

Developing countries, including OPEC nations, restored long-held demands for making the SDR the centerpiece of a reformed monetary system, also to function as a new type of aid — the so-called link proposal rejected by industrialized nations in dozens of international conferences.

These countries, in particular Arab OPEC nations, are also expected to push for a complete reorganization in their favor of the IMF quota system (roughly based on members' GNP), voting rights and lending practices, including SDR allocations, in negotiations for the Eighth Review of Quotas, supposed to be completed at the end of 1983.

The extent of support of Arab oil producers for the SDR is doubtful. Only Iran, which is a Moslem but not an Arab country, and 13 non-oil-producing, low-income developing nations have pegged their currencies to the SDR so far, and only one Arab institution, the Arab Monetary Fund, is an SDR holder.

Vanya Walker-Leigh, an independent economic journalist, represents Canada's *Financial Post* and *Lloyd's List* in France.

Austrian Länderbank. The door to Austria. The gateway to the world.

In order to be successful on the world market, one must:

<ul style="list-style-type: none

Yield Curve Linked To Exploiting Rates

By Charles R. Geiss

ONDON — In money and bond markets, the term structure of interest rates is more commonly referred to as the yield curve. Although both obviously refer to the same ever-changing phenomenon, the latter usage is a practical, succinct example of how professional market operatives attempt to exploit interest rate structures to their own best end.

What the curve is and how it is used is quite simple. If one plots out the various rates of interest on U.S. Treasury bills and bonds from six months to 30 years and connects them with a line, then one has constructed a curve. Curves also exist for other bond sectors, whether they be corporate or municipal.

The importance of this curve is its slope — the upward or downward direction interest rates take as they move out further into the future. Naturally, the rates attached to longer-dated instruments reflect the expectations of investors. The slope of the yield curve, especially as it moves into the long term, is then perhaps one of the best single indicators of the attitudes of people generally toward the future.

Historically, the U.S. yield curve has been in a positive slope, meaning that short-term rates were lower than those in the longer terms. This generalization can always be safely made regardless of the specific sector one discusses because, regardless of the actual rates of interest of a corporate vs. U.S. government bond, the slopes in the two sectors should nevertheless be the same. The reason for this is simple: In the United States, as in most industrialized economies, direct government obligations are the best-rated in terms of creditworthiness and therefore command the best (i.e. lowest) rates of interest. All other bonds and money market instruments are pegged to them but at higher yield levels, to reflect increased risk.

Investor behavior has also certainly changed over the last several years. With higher yields on deposits and money market instruments, investors have been reluctant to commit money to a 15-, 20- or 30-year investment when they can receive a higher rate, albeit for a short period, and simply roll over short-dated instruments. Thus the borrower has been faced with both higher, inflated rates over the last several years plus a wary, inflation-wise investor.

Despite what appears to be a structural shift in the yield curve, traditional yield curve analysis remains valid. Although a 15-year bond may currently yield less than a three-year note, a BBB rated bond in the 15-year range will still

yield more than an AAA 15-year issue. Following this practically, a trader who sees the BBB yielding less will sell it short and cover it probably when its yield has fallen back into line with similarly rated bonds. This quality yield curve gap can be seen in Table 1.

Analysis of this sort can be very difficult in the Eurodollar bond market although it should nevertheless be quite simple. From a statistical point of view, it is impossible to compute averages of bond yields of short-, medium- and intermediate-term corporates in the Eurodollar sector because bonds of all types of rating and maturity length do not yet exist.

This is due to the fact that the Eurodollar market is normally used as an alternative to domestic markets by many corporate borrowers. Thus, this type of borrower appears only when Eurodollar rates are to its advantage. And since there appears to be no direct correlation between the behavior of U.S. domestic rates and the London interbank offered rate (Libor), except on a seasonal basis, "windows" in the Eurodollar bond market normally tend to open and close in a staccato fashion, depending upon somewhat random movements in interbank dollars.

Oddly enough, the one sector that does possess sufficient issues to test basic bond market thinking in the Eurodollar sector is currently out of favor. Supranational issues many times trade at yield premiums above their AAA rated status. This has been caused by what the market perceives as market saturation, or a surplus of dollar issues by these borrowers.

Tax-Free Market

Since the Eurodollar bond market is essentially a tax-free market (lack of withholding taxes leveled at coupon payments), it is not immediately comparable to the U.S. domestic corporate bond market with which it otherwise has so much in common.

For example, assume that a domestic U.S. company has borrowed at similar rates, for similar terms to maturity, in both the Eurodollar and domestic bond markets. Traditional thinking has held that the Eurobond should pay an ostensibly higher rate of interest because of its expatriate nature, and in many cases this is still true. However, in some instances, the Eurobond actually yields less due to the fact that it was brought to market at a lower rate than could have been accomplished in the United States, and has continued to trade in a similar fashion.

The matter of withholding tax on domestic U.S. corporate interest payments for non-exempt foreign nationals (excluding Yankee bonds) means that the markets are not "arbitrageable" in a universal sense and that the U.S. corporate

U.S. Domestic Corporate Bond Yield Differentials

(End of Month)

	AAA	AA	A	AAA spread vs AA/A	Bond Yield (%)
1977					
March	8.10	8.28	8.55	(.18)(.45)	
June	7.95	8.19	8.46	(.24)(.51)	
September	7.92	8.15	8.37	(.23)(.45)	
December	8.19	8.40	8.57		
1978					
March	8.47	8.66	8.83	(.19)(.36)	
June	8.76	8.95	9.18	(.19)(.42)	
September	8.69	8.92	9.11	(.23)(.42)	
December	9.16	9.33	9.53	(.17)(.37)	
1979					
March	9.37	9.61	9.81	(.24)(.44)	
June	9.29	9.66	9.89	(.37)(.60)	
September	9.44	9.70	10.03	(.26)(.59)	
December	10.74	11.15	11.46	(.41)(.72)	
1980					
March	12.96	13.51	13.97	(.55)(1.01)	
June	10.58	11.39	11.89	(.81)(1.31)	
September	12.02	12.52	12.97	(.50)(.95)	
December	13.21	13.78	14.03	(.57)(.82)	
1981					
March	13.33	13.90	14.47	(.57)(1.14)	
June	13.75	14.41	15.08	(.66)(1.33)	

Source: Moody's Bond Record.

Additionally, some corporate borrowers have been able to come to market at yields lower than those suggested by basic pricing mechanisms due to scarcity value or the fact that their names are popular because of European stock exchange listings. This does not imply that yield is not an important consideration but underscores the fact that the relative thinness in parts of the market allows some latitude in the primary sector of the offshore market.

Traditional thinking has held that the Eurobond should pay an ostensibly higher rate of interest because of its expatriate nature, and in many cases this is still true. However, in some instances, the Eurobond actually yields less due to the fact that it was brought to market at a lower rate than could have been accomplished in the United States, and has continued to trade in a similar fashion.

The matter of withholding tax on domestic U.S. corporate interest payments for non-exempt foreign nationals (excluding Yankee bonds) means that the markets are not "arbitrageable" in a universal sense and that the U.S. corporate

turates even this curve has not maintained any consistency in the way it has traded over Treasury obligations. This can be seen in Figure 1.

This lack of spread consistency has left the pricing of new Eurobonds to a combination of subjective factors. New bonds are priced with a combination of the comparable Treasury yields plus existing secondary market yields in mind.

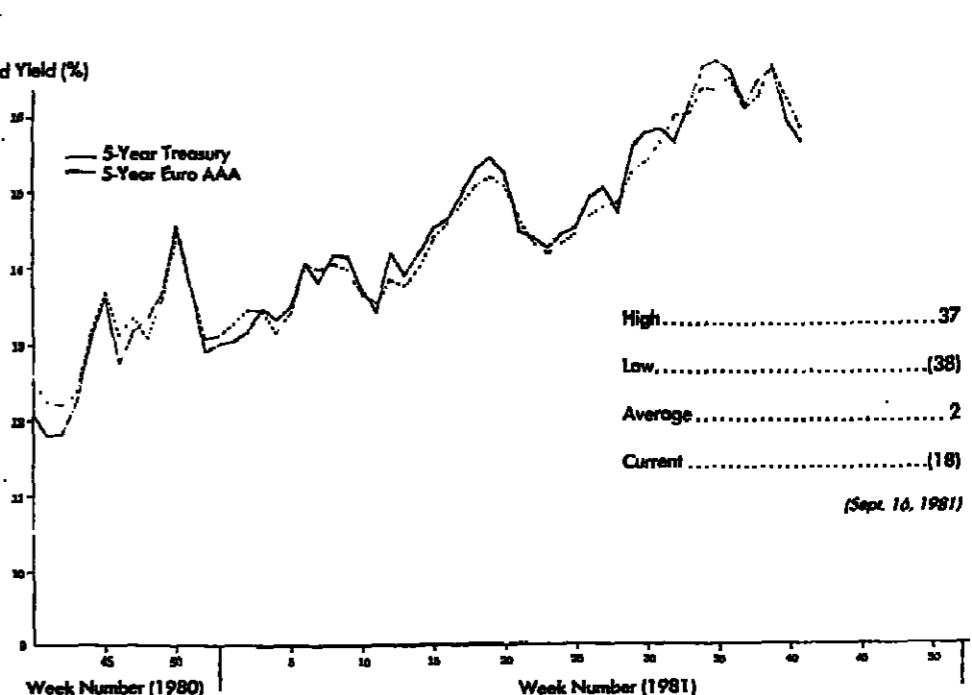
But other factors still enter the picture.

In the secondary market, yield gap arbitrage is much more an industry matter than it is in the longer, more liquid markets. And many Eurodollar issues are brought to market through underwriting procedures unknown in U.S. domestic markets, namely the fully underwritten issue or bought deal. If these sort of issues are initially well-placed, then secondary activity can be minimal and yields on these bonds can be elliptical at best.

These problems in the Eurobond market have not impeded its development over the last 17 years since the original AutoTrade issue appeared. In 1964, total new issues amounted to less than \$75 million. Today, the market has grown to an estimated \$70 billion outstanding on public straight dollar issues alone, net of redemptions. As time progresses, the market should develop to the point where sufficient liquidity exists in all compartments so that current statistical and structural problems become of the past.

Charles R. Geiss is an associate director of Bank of America International Ltd. and author of "A Guide to the Financial Markets," to be published by Macmillan in January.

U.S. Dollar Bonds



Greater Stability for the Swedish Krona

WASHINGTON — Pegging

the Swedish krona to a basket of 15 currencies has meant greater exchange stability for Sweden, according to Lars Wohlin, governor of the Sveriges Riksbank.

The Swedish krona's basket is

weighted according to the role of

leading nations in Sweden's trade,

with the Deutsche mark, dollar,

yen, French and Belgian franc ac-

counting for well over half the

weights. The basket is revised each

April.

Iceland, Norway, Finland also

have adopted the basket system,

but with different currency mix

and revision rules. Denmark as a

member of the European Economic

Community, belongs to the Euro-

pean Monetary System. Sweden,

like Norway, used to belong to the

so-called EEC snake. Mr. Wohlin

pointed out, and both studied the

possibility of joining the EMS be-

fore deciding not to.

The different approaches of

Scandinavian countries to ex-

change and other economic poli-

cies means we cannot contemplate

monetary integration or coordi-

nated exchange rate movements," he

said. "However, officials of our na-

tions meet regularly. We would

like to integrate our capital mar-

ket under OECD rules we are

supposed to relax restrictions on

an absolutely equal basis toward

all OECD members."

Foreign Bank Units

Sweden is contemplating allow-

ing foreign banks to set up branch-

es with a full range of banking op-

erations in the country. "I am per-

sonally in favor," Mr. Wohlin said.

Denmark and Finland accept for-

ign banks; Norway does not.

Despite the basket system, Sweden had to devalue its krona by 10 percent in September. Following a run on the krona in January, 1981 (countered by increased interest rates), wage settlements involving a considerable increase in labor costs, the krona has hit by the rising dollar. Under the basket sys-

tem, the krona's fall against the dollar had to be matched by an ap-

preciation against the West German mark, undermining Swedish exporters in their main market. As the world's leading per capita oil importer, Sweden is also very vul-

nerable to oil price increases, all the more so because they are ex-

pressed in dollars.

As a result of the devaluation, Mr. Wohlin sees Sweden's current account deficit (\$2 billion kronor in 1980) probably reduced to 15 billion in 1981, and possibly to less than that next year. The deficit will be mainly met by private sector borrowing on international capital markets, he pointed out.

Swedish growth prospects for 1981 and 1982 are "rather modest," Mr. Wohlin concluded.

—VANYA WALKER-LEIGH

All set from the start?



When selecting the most suitable financing packaging for a project, you have to make sure that the decisive components are right from the start — the ones that will affect your business most.

Commerzbank, one of West Germany's leading private commercial banks with consolidated total assets of about US \$ 50 billion, has served companies, governments, and financial institutions for more than a century.

During the past decade alone, Commerzbank has managed or co-managed some 450 Eurobond issues aggregating US \$ 25 billion, and has lead-managed or co-managed syndicated Euroloans for a large number of prestigious international borrowers.

Have a talk with Commerzbank. Right from the start.

Head Office, P.O. Box 2534,
D-6000 Frankfurt/M.
Branches and Subsidiaries:
Amsterdam, Antwerp, Atlanta,
Brussels, Bucharest, Copenhagen, Detroit,
Hong Kong, London, Luxembourg,
Madrid, Milan, New York, Paris,
Singapore, Tokyo, Zurich.

Representative Offices:
Business Aires, Caracas, Mexico
Copenhagen, Jakarta
Johannesburg, Lima
Kuala Lumpur, Manila, Mexico City
Mexico City, Rio de Janeiro
Sao Paulo, Sydney, Tokyo
Tokyo, Toronto, Windhoek

Banque Intercontinentale Arabe
67, Avenue Franklin Roosevelt
75008 PARIS

Tel.: 359.61.49
Telex: 660030

Capital: FF. 150.000.000

COMMERZBANK 

How Budget Deficits Affect World Markets

(Continued from Page 75)
 between the budget deficit and savings that is critical in determining whether the deficit can be financed comfortably without either a rise in interest rates or recourse to external borrowing.

Table 2 shows gross domestic savings in each of the six countries covered by Table 1. The gross domestic savings series are as defined by the Organization for Economic Cooperation and Development. The table presents the OECD figures for the gross savings of the non-financial domestic sectors for each country in 1980. Out of these savings, private capital investment has to be financed as well as the government deficit. It also shows Phillips & Drew forecasts of gross savings, as defined, for 1981 and 1982.

In Table 3, budget deficits are expressed in terms of the gross savings figures in Table 2.

The figures in Table 3 show the budget deficit taking a smaller proportion of savings in Japan, Britain and West Germany in 1982 but, in the United States, the corresponding proportion is on a rising trend. In France, the expansive fiscal policy of the new administration is set to generate an explosive

rise in the budget deficit relative to the French domestic savings flow.

The implications of these figures for financial markets are complex. In some of the major countries — for example, West Germany and Britain — there could well be scope for an easing in the upward pressure on interest rates generated by the government sector. On the other hand, the sustained high level of U.S. government borrowing is likely to underpin dollar interest rates if, as seems likely, the Federal Reserve maintains its effort to curb growth in the U.S. monetary aggregates.

French Policy

In France, by contrast, lower domestic interest rates are an aim of government policy. However, a rise in the budget deficit on the scale that the French government is planning is only likely to be financed domestically at lower average interest rates than have prevailed this year if private French borrowers are displaced from the domestic capital market or if the government itself has recourse to extensive overseas borrowing. In either event, the financial flows generated by the increased borrowing in the international market are likely to be a depressing influence

from this source will probably mean that there will be little or no diminution in European demands on the international capital market from 1980, when European borrowers raised about \$30 billion equivalent in these markets, or 1981, when the outtake may turn out to be even higher.

The attractions to governments of international borrowing are likely to be further enhanced, given the weak current account balance of payments positions of many of the smaller European countries. The current accounts of these countries have suffered from the rise in oil prices. The downturn in demand in the major European economies, which accounts for a high proportion of the exports of the smaller countries, has held out the prospect, at best, of a very slow recovery in balance of payments current accounts.

Exchange Rate Move

One way in which the governments of the smaller European countries might have reacted to the deterioration in their current account positions would have been to allow a fall in the exchange rate of their currencies. In allowing this, they might have hoped to improve the price competitiveness of their exports and there might also have been a better prospect of attracting capital inflows at the lower exchange rate levels. Capital inflows would have financed the current account deficits and relieved the shortage of savings in domestic capital markets.

In spite of these advantages of an exchange rate depreciation policy, there were disadvantages in allowing exchange rates to fall. A large proportion of the smaller European countries' exports comprise specialized manufactured goods, where demand is not very price sensitive, or agricultural products subject to the fixed price regime of the CAP. Furthermore, a decline

Table 1: Budget Deficits of Six Leading Industrial Countries

	(Billions)			as % of GDP
	1980	1981	1982	
USA \$	79	100	115	3.9
Japan Y	14,300	12,300	10,500	3.7
Germany DM	51	67	50	2.9
Canada C\$	14	14	12	3.6
France FF	36	70	110	3.5
UK Pounds	13	12	11	4.2

Table 2: Gross Savings of Domestic Non-Financial Sector

	(Billions)		
	1980	1981	1982
USA \$	592	655	725
Japan Y	212,200	239,000	240,000
Germany DM	330	350	350
Canada C\$	62	62	59
France FF	556	585	615
UK Pound	43	42	44

Table 3: Budget Deficit as Percent of Gross Savings

	(Billions)		
	1980	1981	1982
USA	13	15	16
Japan	7	5	4
Germany	15	19	14
Canada	23	23	20
France	6	12	18
UK	30	29	25

In Table 3, budget deficits are expressed in terms of the gross savings figures in Table 2.



Société Générale a leading French bank and one of the world's largest full-service banks.

Société Générale is a full-service bank providing a comprehensive range of commercial and investment banking services.

Investment banking today calls for professional expertise, flexibility and, more and more often, important financial resources.

Société Générale is active on the Euro-bond market and was, in 1980 and the first nine months of 1981, lead-manager of 15 issues which were the following:

Ente Nazionale Per l'Energia Elettrica, US \$ 200,000,000 (1980-1987)
 Ente Nazionale Per l'Energia Elettrica, US \$ 200,000,000 (1980-1987)
 United Mexican States, FF 150,000,000 (1980-1985)
 European Economic Community, US \$ 70,000,000 (1980-1995)
 European Economic Community, US \$ 26,000,000 (1980-1985)
 CTT-Alcatel, FF 150,000,000 (1980-1990 conv.)
 Renault, FF 300,000,000 (1980-1985)
 CII-Honeywell Bull, FF 225,000,000 (1980-1985)
 La Redoute, FF 125,000,000 (1980-1985)
 Gaz de France, US \$ 80,000,000 (1981-1986)
 E.D.F., US \$ 125,000,000 (1981-1988)
 S.N.C.F., US \$ 75,000,000 (1981-1991)
 B.F.C.E., FF 500,000,000 (1981-1986)
 Province du Québec, Can. \$ 50,000,000 (1981-1987)
 Dome Petroleum Ltd, US \$ 75,000,000 (1981-1988)

In order to expand its services in the secondary market of fixed-rate US \$ and £ securities, Société Générale has created a new company with Strauss Turnbull, known as Société Générale Strauss Turnbull Ltd. (S.G.S.T.). S.G.S.T. maintains an active market in all issues led by Société Générale and several hundred others.



SOCIETE GENERALE

French and international bank

Head office: 29, boulevard Haussmann, 75009 Paris, tel. 298.20.00, telex SOGINT 642951

To do business internationally Pierson recommends using two banks

YOU NEED A CAPABLE COMMERCIAL BANK

Even when you're doing business internationally, you still have day-to-day banking needs.

Pierson Heldring & Pierson's general banking services take care of daily chores like money transfers, overdrafts, foreign exchange and documentary credits. While Pierson advisory services assist you with equity, debt financing and credit facilities.

YOU NEED AN INVENTIVE MERCHANT BANK

To tackle more complicated problems, you need a bank that understands international business. A flexible

bank that can create individual solutions to your particular needs. A bank that offers a complete range of special services.

Pierson is that bank. We give you professional, highly personalized attention and expertise with regard to new issues, securities brokerage, block trading, portfolio management, institutional advisory services, trust services and insurance brokerage.

PIERSON IS TWO BANKS

We have the commercial banking services you expect and the merchant banking services you need. In Holland and throughout the world.

If your business is international, let Pierson show you how one bank can be the two banks you need.

PIERSON, HELDRING & PIERSON

HEAD OFFICE IN AMSTERDAM, HERENGRACHT 214, TELEPHONE 020-211188

OTHER DUTCH OFFICES IN THE HAGUE, ROTTERDAM AND HAARLEM

FOREIGN BRANCHES AND SUBSIDIARIES, REPRESENTATIVE OFFICES, TRUST OFFICES AND AFFILIATES IN: BERMUDA, CURACAO (N.A.), GUERNSEY (CHANNEL ISLANDS), HONG KONG, JAKARTA, LONDON, LUXEMBOURG, NEW YORK, SAN FRANCISCO AND ZURICH.

EUROMARKETS

countries that are outside the EEC, as, for example, the Scandinavians, to seek greater stability of exchange rates than prevailed in the mid-1970s. Since a large proportion of such countries' trade is with EMS participants, exchange rate stability was seen by these governments as conferring a clear benefit in terms of domestic manufacturers' trading policies.

Consequently, the governments of the smaller European countries have not regarded currency devaluation as an attractive option in dealing with their financing problems. This has left recourse to international borrowing as the only alternative strategy.

There may be a substantial cost involved in following this strategy, however. European governments encourage borrowing on the international markets in order to relieve upward pressure on domestic interest rates, the public and private sector borrowers who turn to these markets may well be faced by steeper interest costs than in domestic markets. U.S. interest rates currently stand at levels above those in European countries, except in Britain, France and Italy.

High U.S. interest rates are likely to persist as long as the Federal Reserve sticks to restrictive money growth targets, against a background of expanding U.S. government financing requirements. Unless the U.S. dollar weakens substantially on the foreign exchanges, which is unlikely while the Federal Reserve maintains a tough anti-inflation stance, borrowers are likely to find dollar credit expensive compared with the costs of domestic borrowing.

There is, therefore, likely to be a

strong preference on the part of borrowers to seek credit denominated in relatively low interest rate currencies such as the Deutsche mark and the yen.

Mediation

The monetary authorities in West Germany and Japan have not in the past been indifferent to the use of their currencies in mediating international capital flows.

In West Germany, the banks have effectively rationed new international DM bond issues. The Japanese authorities have recently adopted a policy of liberalization but it is doubtful whether they would wish to see extensive use of their currency for international purposes.

Nevertheless, the demands of borrowers in the international markets for relatively low interest credit are likely to bring about a shift in the proportion of total international loans and bond issues away from the U.S. dollar toward the lower interest rate currencies. This could well turn out to be the most striking development in the international financial markets in 1982.

If the monetary authorities in the low interest countries seek to restrict the supply of international capital denominated in their currencies, the pressure of demand from borrowers is likely to force up the interest rates on international borrowings in DM and yen to a significant premium over the corresponding domestic interest rates on these currencies.

S.J. Lewis is a partner of Phillips & Drew.

'Reaganomics' Officially Arrives at IMF and World Bank

WASHINGTON — Reaganomics officially arrived at the International Monetary Fund and the World Bank when the president and his Treasury secretary made clear in their speeches to the annual conference in Washington that they wanted far tougher rules for financial aid to poor nations, and much more "magic of the market place" in those same nation's economic policies.

The United States subsequently abstained Nov. 10 on a controversial \$3.8-billion balance-of-payments loan made by the IMF to India, saying the economic performance criteria involved were not severe enough. But there are indications that strategically vulnerable nations, such as Sudan, may count on U.S. support in negotiating for IMF loans on terms that will not precipitate political or social upheaval.

The U.S. position at the joint IMF-World Bank conference in October won some support from Britain and West Germany, though Canada, Italy, France and the Nordic and Benelux countries would have preferred easier rules.

While the wealthy nations finally agreed to endorse current IMF practices, it became apparent from public and private statements of finance ministers and international officials that not only developing nations but the World Bank group, and possibly the IMF — in an unprecedented situation — would have to turn increasingly to the private market for funds to finance development plans and balance-of-payments support.

Concern Over Conditions

Many developing nations' representatives were deeply concerned at indications from American officials that the U.S. would keep up the pressure... for more market-oriented economic discipline.'

balance-of-payments loans is an informal, but rigorous, requirement for obtaining extensive private bank credit, let alone rollovers of outstanding debts.

Cesar E.A. Virata, the Philippine premier and finance minister, who acts as a Third World spokesman at the IMF, complained in an interview: "Adjustment fails only on deficit countries with limited borrowing capacity. It should be symmetrical, with surplus nations forced to make adjustment efforts also."

He warned that IMF-type discipline could cause major social and political upheavals in some poor countries, and said IMF quotas should be increased from 60 billion SDRs to 240 billion SDRs — though "not in one shot," since they only represent 3 percent of the value of world trade now, compared to 12 percent in 1946. "We have no quarrel with free enterprise and market mechanisms as such," he added, "but many countries have adopted different systems."

Changing the Rules

While the Eighth Review of Quotas, supposed to be completed by the end of 1983, is unlikely to result in anything close to Mr. Virata's ideas, some of the poor nations will make a major effort not only to increase their share of quotas, votes and drawing rights, but to change the rules in their favor. They will also continue to push their demand that Special Drawing Rights be used as aid.

But refusal by the United States, West Germany, Britain and some others to extend the annual allocation of 4 billion SDRs of the last three years into 1982, does not augur well for further development of this asset at IMF.

With non-oil countries' current deficits standing at \$82 billion in 1981, IMF loans, under the "enlarged access" arrangements agreed last year, totalled \$10.3 billion up to August, 1981, as compared to \$8.2 billion in 1980.

But the \$4.6-billion "trust fund"

set up to loan profits from the sale of 25 million ounces of gold held by the IMF has been fully committed. Part of the repayments will go to subsidizing interest rates on IMF loans from the so-called Witteveen \$8.8-billion Supplementary Financing Facility. The balance will be reloaded.

Remaining Gold

But there was no talk of mobilizing the IMF's remaining 100-million ounces of gold to back loans

set up to loan profits from the

MARKETS

Belgian Banks Fear Rise in Foreign Debt May Hurt Nation's Credit Rating

BRUSSELS — Belgian banks, reeling from high interest rates and the recession, are determinedly putting their houses in order. Their most fervent wish is that the state would do the same.

Their main complaint is that the public sector's uncontrolled appetite for funds has more or less exhausted the domestic market. They fear that the rapid increase in foreign borrowing combined with deteriorating economic conditions at home might jeopardize the country's international credit standing.

The banking community is hoping that a strong government will have emerged from the Nov. 8 elections, willing to initiate long-overdue, if unpopular, reforms—notably an overhaul of the indexation system linking wages to inflation.

Although each of the big three — Societe Generale de Banque, Banque Bruxelles Lambert and Kredietbank — appears confident its special strengths will carry it through to better times, none underestimates the difficulties that lie ahead.

"We worry a lot about the international credit of Belgium," said Hubert Simonart, Societe Generale secretary. "We ourselves are better managed than the state—but fear we will become a sort of victim of state ineptitude."

"Serious Threat"

Ivan Lenotte, a director at Bruxelles Lambert, echoed this concern. Noting that Belgium's foreign indebtedness had climbed to 400 billion francs from zero in just three years, he said there are limits to how much it can continue to borrow. "International credibility is under serious threat if nothing changes," he warned. "The market is waiting to see what the new government will do."

The outgoing government of Premier Marc Eyskens is not blind to the problem — far from it. The blunt-spoken finance minister, Robert Vandepitte, called the country's financial situation catastrophic. He said International Monetary Fund (IMF) authorities in Washington recently asked him, "What's happening in Belgium?" and indicated they found its bal-

looning budget and balance of payments imbalances unacceptable. Earlier, Mr. Vandepitte said that unless it narrowed these deficits it might have to go to the IMF some day — like the developing countries.

Analysts said Belgium's financial crunch should not be exaggerated. It still has a prime standing. And, with Euromarkets flush with cash and countries like Poland and Zaire lurching toward default, lenders are not going to question any Western country too closely.

Nevertheless, the country's record is so discouraging that some of these same analysts honestly fear a re-examination of the rating. "Things are in a terrible mess, and I'm not exaggerating," a British economist employed at one of the banks said.

Belgian banks no longer mince words in their denunciation of state borrowing policies. Societe Generale has, in separate studies, recently described overspending as an intolerable burden and said foreign borrowing is leading to a "dead-end situation."

Bank Report

In a just published report, it noted that in the first half of this year direct and indirect funded debt in Belgian francs decreased by 400 million francs, in contrast to the 65-billion increase in the same 1980 period. "This is a clear indication that the domestic market has reached saturation point," it said.

It said that central government debt totals 56 percent of gross national product, compared to 32 percent in the Netherlands and 10 percent in France, and that Belgium's financing needs, at 14 of GNP this year, are 3 and one-half times higher than the community average — an extremely unfavorable comparison."

"Sectors other than that of the public authorities are being crowded out. Demand from the public authorities has been so intense it has largely contributed to the pressure on the domestic capital market and has thus made the conditions of access to credit intolerable for firms and individuals," it complained.

At the end of 1978, the government abandoned a 10-year policy

and turned abroad for funds. In 1979 it raised the equivalent of 71 billion francs this way, in 1980 another 150 billion and in the first seven months of this year 172 billion, for a total of 393 billion. The public authorities have launched three "jumbo loans" to consolidate short-term borrowings, but opinion is divided as to whether it will attempt another such giant operation soon. Some analysts wonder whether it can continue to get the same favorable conditions, including 3% over the London interbank offered rate for at least part of the duration.

Other banks have joined in the public attacks on the government. Kredietbank, for example, blamed its "insatiable craving for funds" for high interest rates.

Stronger Views

If anything, bankers interviewed privately expressed even stronger views. "The financial market in Belgium is totally exhausted," Mr. Simonart of Societe Generale said. A specialist at another bank who requested anonymity said, "Belgium is a lesson to the rest of Europe of the consequences of irresponsibility."

Statistics tell the tale more starkly. Domestic borrowing, which totaled 220 billion last year, reached an estimated 200 billion earlier this year, but may not go much above that because the money just is not there.

A so-called "crisis borrowing" in June raised a disappointing 77 billion, despite special tax advantages, an interest rate of 13 percent and issue price of 97 percent, and an exchange rate guarantee expressed in ECUs, the basket currency of the European Monetary System.

In September, the public financing institution Credit Commercial launched a 13.5 percent eight-year bond issue priced at 98 percent for a record yield of 14.19 percent, but banks showed no enthusiasm. Credit Commercial obtained firm subscriptions of only 20.5 billion, two-thirds the goal.

But the state's gross borrowing requirement keeps climbing, to an estimated 570 billion this year from 421 billion in 1980, 333 billion in 1979 and 260 billion in 1978. It is expected to steady next year at 500 billion to 550 billion — although such predictions in Belgium habitually are overoptimistic.

At the end of 1978, the government abandoned a 10-year policy

substitutions of only 20.5 billion.

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on the habitually Euromarket had become quite limited."

It said Belgium has little immediate choice but to keep on borrowing, but worried that this "mortages enormously the chances of converting our structural crisis into a fundamental recovery."

It recalled, however, that the conditions of the latest such operation were more stringent than the first, and it said the recourse to the American market "shows that the margin of maneuver on

Eurobond Mart Sees 'Year of the Dollar'

(Continued from Page 75)
swallow large losses on unsold paper. Although this procedure fell into dispute during the year, of late, with the market conditions rapidly improving, it is back in favor with lead managers.

'Pre-Priced Deal'

The preferred variation on this theme is the "pre-priced" deal, where the lead manager in consultation with a group of co-managers together set the terms at which they all buy an issue. This spreads the risk among a number of banks and probably also helps assure more reasonable pricing as a group of banks is less likely to acquiesce to the borrower's demand for very fine terms than is a sole manager.

And of course the open-priced deal is back in fashion. This is classic styling with announcement of an issue followed by a selling period of a few days to a week to allow underwriters to sound out their client's willingness to purchase the pa-

The mix of retail and institutional trade spread over a wide geographic area tends to exaggerate the "unsophistication" of the Eurobond market.

per at the indicated terms. These terms then may alter in light of the response and prevailing market conditions and the terms, of late, have tended to be very realistic — the only way underwriters can hope to lure back the investors burned by the unrealistic pricing of new issues during the last year. All this means a borrower can close a deal much more quickly than in New York. Another factor attracting borrowers here is the low call protection afforded Eurobond investors. Bonds sold in New York rarely can be redeemed prematurely whereas Eurobonds can frequently be called after as little as three years at very modest penalty rates to the issuer. In addition, the cost of doing business here can be very much cheaper than the cost to a borrower in New York.

Institutional Market

International investors who want to add dollar assets to their portfolio frequently prefer to buy Eurobonds than bonds in the New York market, where taxes on interest income are withheld. The Eurobond market is tax free, leaving it to investors to declare to the tax authority whatever they want to declare. This creates a certain demand for dollar bonds which does not find a ready outlet in New York.

In addition, the U.S. market, concentrated in New York, is almost exclusively institutional whereas the mix of retail and insti-

tional trade spread over a wide geographic area tends to exaggerate the "unsophistication" of the Eurobond market. The result is that conditions here tighten less fast than in New York, enabling borrowers to raise money more cheaply here than in New York.

The reverse is not true. As markets improve, New York houses move in rapidly to buy up Eurobonds if the terms here become more generous to investors than in New York and this tends to equalize yields.

Investment bankers calculate that top U.S. firms borrowing in the Euromarket save as much as a quarter percentage point on what they would have had to pay in New York. Curiously, lesser-ranked credits do even better — saving up to a full percentage point — as the differentiation investors here make on credit standing is less rigid than in New York.

But unlike New York, where long-term issues of 20 years or more are still possible, the Eurobond market has drawn the line on long-term issues to 10 years. The only Eurobonds with a 15-year maturity are those with an equity kicker — convertible over the life of the issue — into shares of the issuing company.

Reasons for Demise

The demise of the long-term market is due to the disillusionment of investors who, over the years, have seen their capital eroded as bond prices have declined and income cut due to the rise in inflation.

As a result, to be able to market even medium-term issues, investment bankers have resorted to what they themselves refer to as gimmicks.

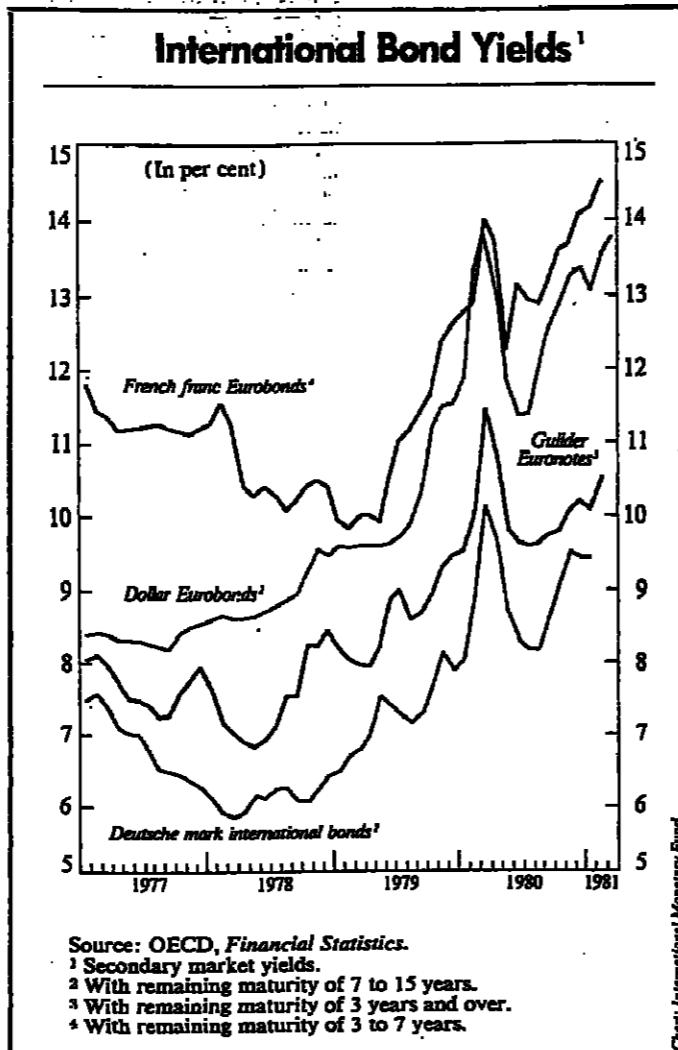
These include issues with warrants, issues bearing no coupon or a rolling rate of interest and issues sold at enormous discounts from face value. The rationale behind each of these innovations was an attempt to marry investors' unwillingness to buy long term with the borrowers' need for such funds.

The zero coupon is really only of interest to pension funds and other such institutional investors as it is the only way such investors can guarantee a fixed yield to maturity — a key number for such institutions as pension funds, which know what income they will need to meet their obligations in coming years.

A good example of how these new techniques work was Citicorp's \$100-million issue earlier this year of three-year zero-coupon notes bearing two warrants to buy, within the next year, two seven-year zero coupon bonds which will be issued to yield 14 percent.

The three-year notes were sold at 66 1/2, meaning investors paid \$667.50 for each bond nominally valued at \$1,000. That works out to an effective yield of 14.42 percent. However, the warrants were estimated to have a value of \$10 each, which, when added into the calculation, raised the effective yield to investors to 15.60 percent.

Warrants have added a dash of speculation traditionally missing



in bond markets and work much like stock options — for a minimum sum, investors get the right to purchase securities at a fixed price within a certain date. If bond prices rise and yields drop, the warrant to buy the Citicorp paper yielding 14 1/2 percent could rise very sharply in price. In fact, they currently are worth \$34 each.

The rolling-rate notes are a variation on floating rates notes.

'Based on a wide sample of representative issues, FRNs have generated a 13.8-percent compound annual total return since the start of '78.'

Rollers are long-term paper that carry a fixed rate of interest for three years. At that time, the coupon will be reset and investors can keep the paper earning a new rate of interest or can ask to be repaid. The borrower is under no commitment as to how the new coupon will be set. Thus, the borrower can set terms that are very attractive to investors to lure them into retaining the paper or can set less attractive terms if the desire is to force redemption and effectively scuttle the issue — which could be the intention if the long-term market in three years' time is open and the borrower want to issue debt at a fixed rate deemed to be attractive.

Floating rate notes, which carry a coupon rejiggered every three or six months at a fixed percentage over the London interbank rate, have been one of the most effective ways to raise medium to long-term cash and have proved the most rewarding to investors.

According to a recent study by Salomon Brothers, the New York investment bank, "the return on FRNs in recent years has been higher than that of any major domestic or international bond or money market instrument in any of the principal currencies. Based on a wide sample of representative issues, FRNs have generated a 13.8-percent compound annual total return since the start of 1978."

Further, the Salomon study states that, better than any other instrument, FRNs have maintained their capital values — trading virtually at par on refixing dates and close to par at other times. Debunking a long-held fear that capital values would fall when interest rates decline as investors rush out of floaters into fixed-rate instruments, the study notes:

"The behavior of FRN prices relative to interest rate fluctuations contradicts market mythology that says switching from FRNs to straight during periods of declining interest rates might depress FRN prices. Indeed, arbitrage by bank investors will virtually guarantee that the relationship between FRN current yields and bank funding costs will remain relatively constant (i.e. that interest rates and FRN prices will move in inverse relationship)."

French Technocrats Face Baptism of Fire

By Alan Tillier

PARIS — The young, highly educated technocrats now working on French banking reform at the Economic Ministry face a baptism of fire. Their own minister, Jacques Delors, has spoken of the "passionate forces" involved in the forthcoming nationalization of credit. Mr. Delors, however, hopes that the heated debate will lead to a calmer study of just how the banks can stimulate investment and consumption.

The nationalization of 36 major private banks — CCF, Paribas, Suez, Rothschild, etc. — is now being decided in the French parliament and it is expected that the banks will be taken under state control by Christmas, despite delaying tactics in the largely right-wing French Senate. In the spring there is expected to be an orientation law on banking reform designed principally to open new credit lines for France's 1.5 million small and medium-sized firms, which have bitterly complained in the past that the big banks, including the state banks, have virtually ignored them when a degree of risk was involved. The credit changes will be a three-stage affair.

First comes the move to bring the private banks under government control in the same way that the French Big Three (Banque Nationale de Paris, Credit Lyonnais and Societe Generale) were nationalized after the Liberation. The left's huge parliamentary majority ensures that this will come about despite sharp polemics over compensation, notably with foreign shareholders (French branches of foreign banks will not be nationalized).

The government also has begun legal proceedings against much of the top echelon of Paribas for alleged illegal transfers abroad, a counterpunch to Paribas's spinning off some of its more lucrative foreign subsidiaries prior to nationalization. Mr. Jacques de Foucault, who returned temporarily to head Paribas, fears that the whole group will break up under government measures directed at Paribas world holdings. If the same "disintegration" occurs at Suez and CCF, then the structure of French banking will be revolutionized, for these three financial houses wielded enormous industrial clout in the 1960s and 1970s.

The French banking network abroad would also be threatened.

The government's policy is to direct credit and investment into

the government seems aware of the danger, for it has decided that the new head of Paribas should be Mr. Jean-Yves Haberer, current head of the French treasury, a virtually all-powerful body in the allocation of state funds. The fact that Mr. Haberer is moving over to Paribas is evidence that the government wants to preserve this large banking group with its multiple interests in hundreds of French companies as well as a network of shareholdings abroad.

Secondly, the French government is looking at the whole savings structure. This is a veritable tangle of problems — confidence in the state, the need for longer-term savings, disastrous gold-linked issues made by the previous regime, and the future of the recent mutual funds with their tax advantages, which attracted 4 million investors.

Thirdly, the French government has to decide upon meaningful reforms for French banking bearing in mind the failure of past reform proposals aimed at both decentralization of the major state banks and greater competition all around. Recently there were examples of the Credit Lyonnais, in its home base of Lyon, exercising greater autonomy, but there were far more cases of new industries coming up against bankers who asked: "What have been your results for the past five years?"

The previous government called upon senior civil servant Jacques Mayoux to draft a wide-ranging reform of the banking system. That was in a context of "freeing" industry from government controls.

Although the new government wants to extend the state's control of industry and banking, the upcoming reforms could well be similar to those proposed by Mr. Mayoux. He sought a regionalization of the Big Three in order to provide an easier flow of credit to the smaller firms. While the socialist technocrats wrestle with next year's reform, it is evident that this same easier access is predominant in the minds of Premier Pierre Mauroy and Economics Minister Delors.

After saying that new taxation would only hit the oil and banking sectors, the French premier added: "We seek to extend the decisions of the Liberation... and that an apparatus of credit will from now on support all of our firms."

The government's policy is to direct credit and investment into

EUROMARKETS

administrative decentralization. Mr. Mauroy said: "The government wants banks to develop considerably their loans to the medium and small firms and ideally this aid will be complementary to other state aids."

State Money

There are various funds to direct state money into industry. Presumably all — state banks, ex-private banks and funds — will now be working more closely together for, as Mr. Mauroy said: "There is no new policy without effective control of credit." Details await the outlining of the intermediary French two-year plan in December, but reports talk of a regrouping of banks and a broadening of their capital base. It seems that some sectors of the French economy will benefit from more advantageous rates. The government will be pumping more money into the economy — a lot of it raised by huge loans — and it wants the banks to follow suit.

Mr. Delors says he is no hurry about the reform, but he has some sharp words for French bankers.

"Under-estimating the general interest, egoism and waste." The latter was a reference to the rush to open new branches, expenditure on publicity and so forth. He was also highly critical of bankers supporting a firm one day and dropping it the next — "le coup du banquier," he called it. He wants a strengthening of the medium-to-big French banks.

There are four French banks in the world's top 10 but only 28 in the world's top 500. The French minister wants a more West German balance — one in the top 10 but 38 in the top 500. He is preaching audacity, saying that it has been the state rather than the banks which has accepted risks since the 1950s. A warning shot has come from opposition deputy Gilbert Garnier, who noted that socialist regimes in West Germany, Norway and Britain had shied away from banking nationalization. He said the countries that had nationalized banks were those in the Communist bloc and some in the Middle East and Africa.

Alan Tillier, a free-lance journalist, is a frequent contributor to *IHT* special supplements.

The Fine Art of Bond Computing in the Derivative Age

By William Ellington

LONDON — Historians like to put labels on eras. For instance, we have the Age of Reason, the Renaissance, the Dark Ages, Middle Ages and so on.

I think I know what the label for our era will be: the Derivative Age. I confess that Derivative Age isn't very pleasing to the ear. Maybe a future historian will find another term that expresses the concept of one thing being produced from or based upon another thing.

What started me thinking about our era was the delivery of a bond calculator sponsored by the Association of International Bond Dealers (AIBD). The machine is actually a computer that runs four programs known as modes. One program is for arithmetic and operates in the same way as most calculators. Another program is for yield calculations; a third is for average life computations and a fourth works out convertible bond premiums and discounts.

The yield mode makes yield-to-maturity calculations in two seconds, whereas the calculator I previously used took about 10 seconds. Speed is important if you are comparing the bid and offered

yields of 20 different issues. If a dealer is paid £1.25 an hour, the amount of time saved by using the AIBD calculator will pay the £250 cost of the machine in one year. The catch is that no respectable bond dealer is paid such a low salary.

Equally important is the ability of the calculator to produce yields of U.S. and British treasury bond issues, which are based on a 365-day year and semiannual compounding, and quickly convert these yields into annual rates that allow comparison with Eurobond issues.

What concerns me somewhat is that we might be talking the same numerical language without knowing what the numbers mean. I have always been bothered by the fact that yield-to-maturity calculations don't correspond to what an investor actually receives as income.

For instance, if you have a 10-year bond yielding 15 percent and another 10-year bond yielding 18 percent, the yield-to-maturity calculation for the first bond assumes that coupon payments are reinvested at 15 percent annually for the next 10 years, whereas the assumption for the other bond is a rein-

vestment rate of 18 percent. If both issues have the same coupon rate, it would be logically impossible to have different reinvestment rates. Furthermore, it is irrational to assume a uniform reinvestment rate in our present world of highly volatile interest rates.

Those traders who are uneasy with a large call position might want to hedge their position with three-month Eurodollar deposit contracts traded on the London International Financial Futures Market.

One hopes that the AIBD will produce a Mark II or Mark III calculator to cope with all this. We need to be able to compare the forward-forward rates in the interbank market with Eurodollar futures contracts and relate this to discounted treasury bills before working out whether we can arbitrage between two different call options on Eurobonds. As a start, it would be handy to have a calculator program to allow yields to be calculated with a series of reinvestment rates.

William Ellington is a London-based journalist who specializes in financial and economic news.

All of these securities having been sold, this announcement appears as a matter of record only.

NEW ISSUE

Merrill Lynch White Weld Capital Markets Group

Merrill Lynch, Pierce, Fenner & Smith Incorporated

Lehman Brothers Kuhn Loeb

Incorporated

Salomon Brothers Inc

Smith Barney, Harris Upham & Co.

Incorporated

Copenhagen Handelsbank A/S

Den Danske Bank

Al 1871 A/S

Privatebanken A/S

Smith Barney, Harris Upham & Co.

Incorporated

R. Henries jr.

Dean Witter Reynolds Inc.

Dain Rausch Incorporated

Hambros Bank Limited

McLeod Young Weir Incorporated

Piper, Jaffray & Hopwood Incorporated

Wood Gandy Incorporated

American Express Inc.

UBS Securities Inc.

Westdeutsche Landesbank

Girozentrale

Drexel Burnham Lambert

Incorporated

E. F. Hutton & Company Inc.

First Boston Corporation

Bear, Stearns & Co.

Blunt, Ellis & Loewi

Incorporated

J. C. Bradford & Co.

A. G. Edwards & Sons, Inc.

Donaldson, Lufkin & Jenrette

Securities Corporation

Kleinwort, Benson

Incorporated

Lehman Brothers

Incorporated

Oppenheimer & Co., Inc.

Orion Royal Bank

Limited

</div

'Dogs' Help to Counterbalance 'Super Deals' Among Recent Eurobond Offerings

Special to the IHT

LONDON — In a year that saw fluctuations in the world fixed-interest markets greater than at any time since the pre-World War II days of hyper-inflation, investors encountered extremes of success and failure with the Eurobond offerings they bought.

"Super deals" solidly placed and able to withstand the wild interest rate gyrations of 1981, were unfortunately counterbalanced by "dogs" so awful that even the greatest "animal lovers" could not be persuaded to acquire them. The picture varied from currency sector to currency sector, but with the U.S. dollar most sought after, the bulk of the winners and losers were inevitably in this sector.

The criteria applied in establishing whether an issue was successful or had failed were straightforward. A "winner" had to show an exemplary primary market debut, which may have included changes in the offering amount, coupon or maturity range, followed by an above-average performance in the secondary sector. A "loser" was endowed with the opposite characteristics. With this in mind, the five best and five worst transactions of the year were selected from suggestions put forward by market participants.

The choice of the best performers at the

end of August would have favored a number of Japanese convertibles, but the collapse of the Tokyo stock market removed all of these from the list. Similarly, the dreary role to which the Euro-Deutsche mark sector was relegated this year produced few opportunities for good or bad to prosper. Among other currencies, only the French franc made sufficient impact to produce one of the worst placements of the year in the form of the Lafarge Copee SA convertible.

Winners List

The issue was launched in January, totaling 225 million francs over 10 years with a coupon of 11 percent. But at the closing in February, it had been reduced to 190 million francs with the coupon increased to 11 1/4 percent for the first five years and 11 1/4 percent for the remaining five.

The management group of 13 led by Credit Commercial de France lost three co-managers, confirming suspicions that the issue should have been pulled and not, as generally suspected, deposited on the books of the managers. The bonds began life in the secondary market at 94-96 only to continue their decline to a recent "trading" level of 87-89.

Floating rate notes, which according to

Salomon Brothers gave investors the best return over the past five years, have not been renowned for producing spectacular issues, but one offering deserves an award as a 1981 winner. Merrill Lynch Overseas Capital NV's FRN totaling \$100 million over six years issued at 99% since its launching, traded consistently above par, and reflects the appealing conditions presented to investors.

The notes offer the holder a redemption option at par after three years and also enable the borrower to determine the coupon level singly at a rate favoring the holder. Although the offering amount was not increased, Merrill Lynch International's handling made this

creased to \$150 million and then doubled as the launching into favorable market conditions produced overwhelming demand for this paper. The after-market price performance was equally impressive and has varied little from the original offering level of 99%.

GMAC of Canada managed to match this triumph with its \$60-million Canadian 1987 16-percent notes, increased from \$40 million Canadian. The placement was also led by Morgan Stanley International, which has rediscovered that old winning touch. Although the offering amount was not increased, Merrill Lynch International's handling made this

FRN of the year.

Among straight issues, the premier of Walt Disney Productions \$100-million 1986 15 1/4-percent notes enabled investors to acquire a rare paper, which to date has not failed to impress. Comparable to the past Philip Morris and Exxon straights, this unique "Mickey Mouse" paper traded at a premium which throughout its life will give investors rare capital security.

The issue was floated by Morgan Stanley International, also the leader of the spectacularly traded offering, the GMAC Overseas Finance Corp. 1984 16 1/4-percent notes. The original amount of \$100 million was in-

creased to \$150 million and then doubled as the launching into favorable market conditions produced overwhelming demand for this paper. The after-market price performance was equally impressive and has varied little from the original offering level of 99%.

GMAC of Canada managed to match this triumph with its \$60-million Canadian 1987 16-percent notes, increased from \$40 million Canadian. The placement was also led by Morgan Stanley International, which has rediscovered that old winning touch. Although the offering amount was not increased, Merrill Lynch International's handling made this

FRN of the year.

Another doubling of an immensely successful transaction took place in the IBM World Trading 14 1/4-percent 1984 note issue, led by Salomon Brothers International. Through the offering was increased from \$50 million to \$100 million, the amount could not satisfy retail demand and ensured that the dealing price remained around par to yield, at present, 100-plus basis points less than comparable prime debt.

The losers list is dominated by Japanese convertible issues, which, through the sharp decline of the Tokyo equity market, saw dramatic reversals in some of the hottest deals launched during the year. Despite the criteria, which ignore the price performance of an issue at any given point but take particular note of the syndication skills and offering terms in relation to similar issues at the time of launching, the number of Japanese placements qualifying as losers was overwhelming.

Nikko Securities' handling of Yamaichi International's \$75-million 5 1/2-percent 1996 convertible for JACCS Co. Ltd., which lost the support of some influential co-managers during the selling period and should have been shelved. Instead, the borrower persisted with the flotation and launched the bonds, which dropped to 90-91 in the first week and continued their way down to the recent 79-81.

The repeated absence of syndication skill, insensitivity to market sentiment and environment, plus a lack of secondary market support by certain Japanese managers, frustrated professionals and investors alike, and it calls for some serious soul-searching among members of the Japanese investment banking community and the Japanese Ministry of Finance to correct an otherwise commendable track record in the international capital markets. In contrast, the professionalism of the U.S. investment houses has deservedly given them all the winners this year.

Oil Boom Leaves Financing, Transportation Far Behind in Mexico

By Phillip Hewitt-Brown

LONDON — Mexico gained its independence from Spain in 1821. For 150 years it was faced with a hard and long economic struggle for survival. The dramatic leap in oil prices in 1973-1974, however, prompted increasing exports and a sharp rise in oil exports.

The country has since been faced with the phenomenal task of developing a firm industrial base, an infrastructure and an educational system for a population of 70 million. Estimates regarding illiteracy vary considerably, from 65 percent by U.S. government sources to 84 percent officially claimed by the Mexican government.

The soaring price of oil in the 1970s enabled the nation to embark on ambitious plans and mortgage itself to the hilt. Foreign borrowing has played a crucial role in this program, but the universal rise in interest rates coupled with a world glut in oil has acted like a pincher movement on the Mexican economy.

Since 1974, Mexican public-sector foreign debt has mushroomed from \$8 billion to an estimated \$40 billion for the year ending December 31, 1981. Looked at another way, the Mexican public sector has borrowed \$52.185 billion since January 1, 1975. Though no official statistics are available for the private sector for the same period, an study by Grupo Industrial Alfa has estimated it to be around \$15 billion.

Problem Areas

The Gross Domestic Product (GDP) of Mexico rose sharply between 1979 and 1980 from \$119.9 billion to \$183 billion, which on a per capita basis represents a gain from \$1,810 in 1979 to \$2,614 in 1980.

According to the latest Inter-American Development Bank Report on Economic-Social Progress in Latin America, the manufacturing industry's share of the Mexican GDP has risen from 22.6 percent in 1960 to 27.1 percent in 1970, and reached 29.9 percent in 1980. The expansion has been more rapid than the Latin American average, but not nearly as quick as demand would have permitted.

Domestic prices in Mexico have risen during the past two years at a rate not totally compensated for by a currency devaluation. This in

turn has constrained several emerging industries.

Further limits have been posed by the nation's antiquated railroad system, which has been used primarily to handle expanding petroleum production. The country has 19,680 kilometers (12,300 miles) of railways, of which 102 kilometers are electrified. Inadequate capital investment in road systems has caused limited success in efforts to overcome supply and distribution problems.

Earlier this year, Mexico made a major blunder with its oil pricing policy. The country refused to reduce prices at the first signs of a glut, and thus priced itself out of a declining market. Later, it was obliged to sell well below market prices to maintain cash flow. Therefore, even if figures on the volume of Mexican oil exports are accurate, it is still difficult to assess the country's 1981 earning picture.

The domestic market was not capable of financing the industrial growth of recent years. Consequently, many borrowers resorted to syndicated Eurobonds, the U.S. private placement market and floating-rate note issues. Currently, the supply of funds appears to be declining while demand will probably increase.

The Mexican economic situation is causing bankers to move with caution, while the number of U.S. insurance companies active in the U.S. private placement market has shrunk from between 12 and 14 to four in less than three months. One way of increasing available funds would be to withhold more taxes, but such a move cannot take place at the stroke of a pen.

Earlier this year, Mexico's withholding tax was reduced from 21 percent to 15 percent, giving lending banks an immediate 7.6 percent increase in the return on their Mexican assets. However, it will take larger incentives than this to ensure that an adequate volume of funds continues to flow into Mexico. Some banks are quickly approaching their countries' limits for Mexican assets.

Inflated Debt

Mexican debt has mushroomed in recent years. During the first nine months of 1981, the country mandated \$11.9 billion of syndicated credits and "club" deals in the Euromarket. This figure represents a 164 percent increase over the \$4.5 billion obtained during the same period in 1980.

Belgian Banks

(Continued from Page 133) win the business of the general public, and to move into the Eurobond and foreign exchange markets. It has also made a specialty of promoting artificial basket currencies like the ECU.

"We got into Eurobonds much earlier and more actively than the others, particularly in lead-managing," an official said.

He declined to forecast profits, although Kredietbank was the only major Belgian financial institution to show a gain in its latest reporting period, by 1.5 percent to 1.76 billion francs in the year ending March 31. It also increased its dividend by 10 francs to 365 francs.

Taking Swipes

Officials at the three banks occasionally take swipes at one another. A Societe Generale official, for example, said Bruxelles Lambert's improved performance is almost solely the result of its wage cuts. He said Kredietbank was really a regional bank, with activities mostly in the Flemish-speaking half of the country.

A Bruxelles Lambert researcher said Societe Generale would not be doing so well if it did not have so many "captive customers." And a Kredietbank source said the No. 1 bank's overseas network was most

ly related to its established trading activities.

Still, competition among the three is far from fierce. The shifts in their markets are marginal. Perhaps they are more united by the concerns they share about the state of the country. The economy is a mess, and that hurts them all. Bad debt losses at each are on the upswing.

Belgian unemployment is running at a record 9.7 percent, the current account deficit is widening at an alarming rate toward a possible 300 billion francs this year, investment is falling and output stagnating. Most economists fear worse is to come. The only positive sign is continuing low inflation, estimated at 3 percent for this year.

The financial community is unanimous in arguing that the state must curb its borrowing appetite. It also agrees that reforms of the economy are desperately needed.

Mr. Lemotte said a new industrial policy should be undertaken. Austerity alone, along the lines practiced by British Prime Minister Margaret Thatcher, is not sufficient, he said. "The government should reform its finances, but at the same time, take measures to spur growth in new sectors," he said.

—BRENT BOWERS

BANQUE TRAD-CRÉDIT LYONNAIS (France) S.A.

New address as from NOVEMBER 16th, 1981

38, Avenue de l'Opéra
75002 PARIS

New telephone number

742-40-01

P.O. Box 252, 75063 PARIS CEDEX 02
Telex: CRETAF PARIS 680720-680453-211106
Telex address: CREDITRAD PARIS.

A winning combination.

The International Monetary Market gave the professionals short-term liquidity. Now we've added flexibility.

For years banks, government securities dealers, and managers of institutional funds have been using our T-bill* contract to offset interest rate risk tied to short-term cash market positions. The addition of a CD futures contract to the IMM's existing T-bill contract has created a futures market inter-relationship that mirrors the cash market, thus allowing professionals to directly hedge cash market risk with a new degree of flexibility. This flexibility and interplay between markets has created, on the IMM, the most liquid CD contract. This assures the best prices and fastest order filling.

Professional traders always assess liquidity before deciding

to enter a market. In short-term futures this is available only through the International Monetary Market. Not only is the IMM T-bill contract the only successful short-term contract in the world, trading over \$20 billion a day, the new CD contract is becoming an industry standard.

Hedging CD's by using interest rate futures is just one of the many examples of the interlocking relationships that exist in today's domestic and international money markets.

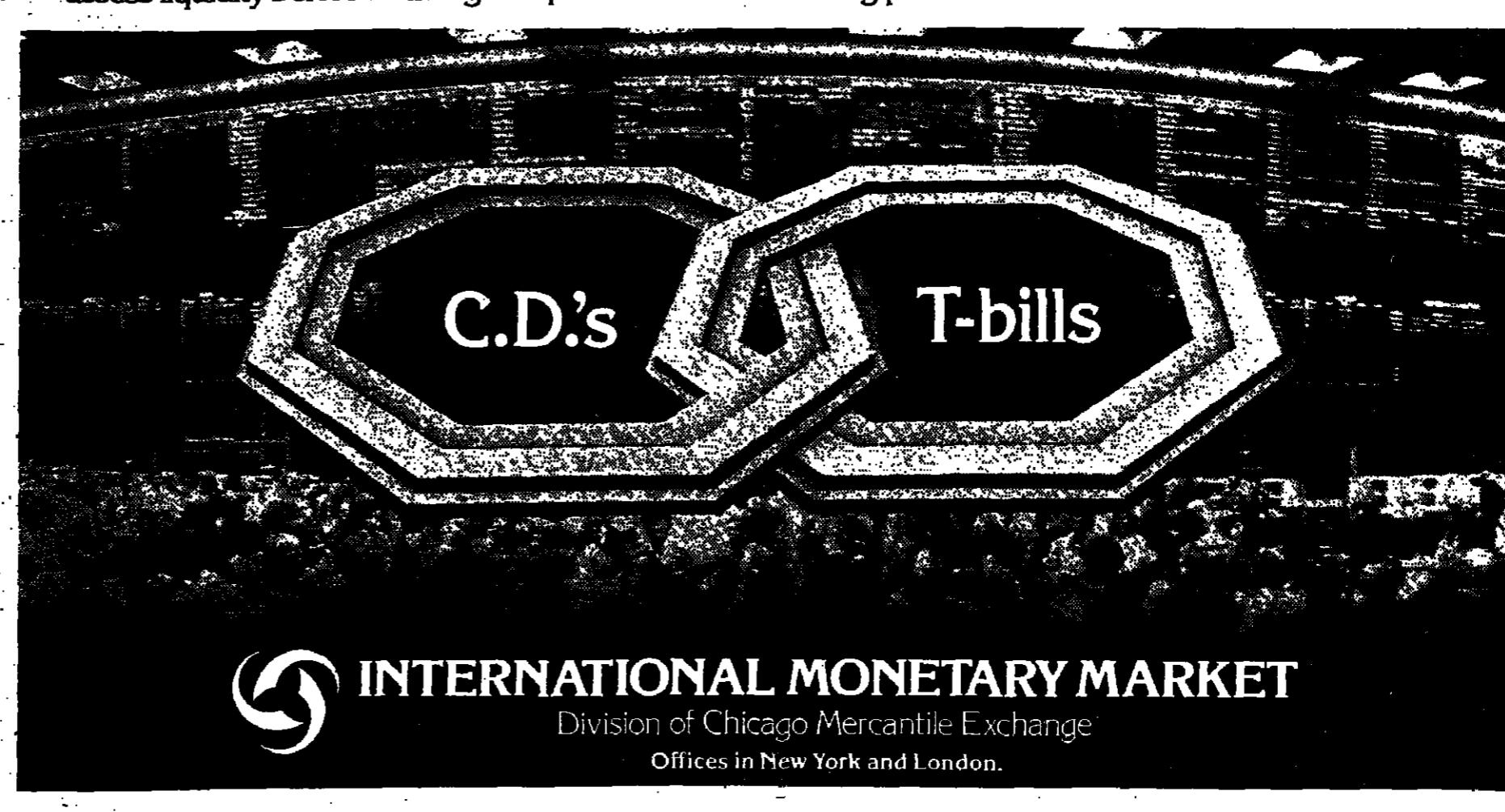
Arbitraging between the cash market and the futures market is another. Spreading between CD futures and T-bill futures is yet another. This unusual flexibility is precisely why the IMM has positioned its CD trading pit

next to the T-bill pit. Only the International Monetary Market has the combination of experience, liquidity and now flexibility to allow traders to take advantage of the many inter-relationships involving futures contracts.

For a copy of the IMM booklet "Inside CD Futures," please write to the International Monetary Market, 444 West Jackson Boulevard, Chicago, Illinois 60606. Or call one of the following IMM numbers:

Chicago 312-930-3048,
New York 212-363-7000,
London 01-920-0722.

*IMM futures contracts in U.S. government debt are not obligations of any department or agency of the U.S. government.



Bond Issues Sustain Record Primary Volume

By Ian M. Kerr

LONDON — Most bond investors will prefer to forget 1981. There has been no summer rally. In fact, there has been no real rally whatsoever. The bond market's principal achievement, in an otherwise dismal year, has been to sustain primary issue volume at record levels.

Declining bond values and record primary volume make unlikely companions. The success of this improbable duo attests to the market's ingenuity for creating new financial techniques. If 1981 is remembered at all, it will probably be because this has been the year of the warrant.

Warrants have become very fashionable. But they are not new. In the Eurobond market they arrived in the 1960s. In the United States and Europe, warrants have been employed in sophisticated fund-raising exercises for many years. Until this year, warrants were associated almost exclusively with equity-related instruments. Reference to any textbook definition would reveal that warrants are a "negotiable security issued by a company that represents a long-term option to purchase common stock of the company on specified terms."

That was fine 10 years ago. Today, warrants are no longer the exclusive property of the equity world. They are attached to floating rate notes or to convertible securities, and are not always separately negotiable. They do not always constitute a long-term option.

Warrants have suddenly become very complex. In a market that is already poorly informed, the warrant explosion creates immeasurable problems. Investors may easily be buying an instrument that they do not fully understand. The new application for Eurowarrants is the brainchild of investment banking houses whose affiliations may be stronger with the borrowers than with lenders. It is in their interests to minimize the borrower's cost of funds.

If the addition of warrants to an issue reduces the net borrowing cost, investors should ask themselves whether they are subsidizing the issuer. We have reviewed all the more recent warrant issues to assess whether investors received any genuine benefit, or whether the advantages all accrued to the issuer.

Reasonable Choice

Until February, 1979, the growth of the Eurobond market with warrants had been spasmodic. Investors had a reasonable choice of issues, including such names as B.A.S.F., Jardine Matheson, Highfield Steel & Vanadium, Rio Tinto Zinc, Siemens, Zapata and Teledyne. Only a few provided investors with easy profits. The Jardine Matheson issue was a spectacular success, rising to around 400 percent in line with the boom in the Hong Kong Stock Exchange in the early 1970s.

On the other hand, a 15-year issue by Four Seasons Nursing Homes defaulted. The revival of the warrant cult began in February, 1979, with the jumbo \$200-million Bayer International Finance N.V. 7½ percent bonds with warrants attached. Despite its size, the issue, under the management of the Deutsche Bank, was successfully placed. The Bayer example was followed in rapid succession by similarly structured warrant issues from the German chemical company Hoechst, and two British companies, Redland Holdings and Alexander Howden.

For warrant specialists there was nothing unusual about these issues. The borrower reduced its cost of debt-servicing by issuing bonds with a lower interest coupon than on conventional straight bonds, but compensated lenders by providing an equity option in the form of warrants to buy common shares equivalent to the approximate face value of the bonds for a specific period. Secondary market trading in the issues was transacted in three forms: Bonds cum warrants; the warrants themselves, and bonds ex warrants.

However, in December, 1980, the warrant world changed again. Investors were presented with two new warrant formulas. The first was a convertible bond with a warrant attached. The second was a straight bond with a warrant attached. Analysts were quick to notice several important differences from conventional warrant issues. In the case of the new convertible, the warrants were non-detachable. Also, the duration of the warrants was only for six months and nine months, compared to the 10-year option on the Bayer issue.

Convertible Issues

The convertible issues with warrants attached were not an outstanding success. The first loan, for the offshore subsidiary of Anixter Bros., was reduced from \$20 million to \$16 million. The second issue, by Marion Corp., was withdrawn. And the third, considered to be by far the most attractive for Anacomp Inc., was reduced in size from \$15 million to \$12.5 million.

Investors appeared to prefer warrants attached to straight bond issues. In the five-year Credit National 13½-percent notes due in 1986 with warrants were a major success. The formula was copied by G.T.E. and Hydro Quebec, but the euphoria proved to be short-lived. Straight bond prices were in full retreat. A warrant to buy another straight bond was seen as a disadvantage. The warrants expired without providing bond holders with any tangible added value.

The concept of attaching warrants to floating rate notes was even less popular with investors, and it has only been attempted once. The Citicorp floating rate note issue carried a warrant which

entitled holders to buy a 10-year straight bond with a coupon of 12½ percent. As straight bonds of comparable quality and maturity were yielding around 13.80 percent at the time, it was concluded in a summary that "if our assumptions are correct, the warrants today are therefore almost worthless." While this outspoken view may have sounded extreme, it was vindicated as the warrants did indeed prove to be worthless throughout their life.

The respectability of the warrant concept was revived with the introduction of the zero coupon and deep discount bonds with warrants. The Citicorp zero coupon issue in July was one of the year's most innovative financings. It was felt that the terms favored the borrower to a significant extent. Zero coupon bonds were, and still are, an unknown quantity. The offering on the Citicorp zero notes was 14.42 percent when similar maturity bonds with a conventional coupon were yielding 16 percent.

It did not require an experienced eye to see that the warrants had to have some tangible value to ensure a successful issue. The combined value of the two warrants attached to each bond would have to equal a sum which, when deducted from the cum warrant price of the bonds, would provide a realistic valuation for the ex warrant residue. Although it would have been difficult to quantify for pure analysis, the warrants proved to be every speculator's dream.

Speculative Element

In a declining bond market, the Citicorp warrants rose from \$10 to \$24 in less than one week, a gain of 140 percent. Subsequent warrant issues have been offered by Transamerica, Continental Illinois, G.T.E., Wells Fargo, Hiram Walker, and B.F.C.E. In most instances, investor interest has focused on the speculative element in the warrants rather than the fundamental value of the underlying bonds.

Warrants have injected some life into an otherwise dismal bond market. However, not every fund manager is convinced that warrants will play any more than a minor role in the development of the Eurobond market. The skeptic point out that:

• Liquidity is poor. At present, the secondary market in warrants is being maintained by one U.S. investment bank and a firm of London stock-jobbers.

• While the liquidity problems persist, traders and institutions will not be tempted to use them to hedge their inventory positions. Hopes that warrants would act almost like a futures market will not be fulfilled.

• The most popular warrants have been attached to zero-coupon bonds. The concept of zero-coupon bonds and their longevity in the Euromarket are still being questioned.

• Recent warrants have been

too short, providing cost savings to the borrowers but little genuine advantage to the lender.

• Very few warrants have any "intrinsic" value, i.e., providing an option to buy a security at less than the price which that security would automatically command in the market. If the warrant provides an option to buy a security at a higher price than it would command in the market today, it has a negative intrinsic value.

• The very disappointing price performance to date of bonds with warrants attached.

Better Performance

The growth potential of the warrant concept will eventually be measured by its performance. However, if investors hoped that warrants would provide a path to easy profits, they have been disillusioned. The Anacomp and Anixter Euro convertibles with warrants could have been sold at a substantial profit, but both stock prices eventually fell back in line with Wall Street. However, it is probably true that none of the warrants in the Citicorp, the first G.T.E. (despite the last-minute adjustment of the warrant terms) and the Hydro Quebec issues were ever exercised. The sad history of the expired bond issues with warrants attached is shown below.

The slightly better performance of the Citicorp and Hiram Walker issues is encouraging and will probably convince other borrowers to consider the warrant formula. The recent new B.F.C.E. \$100-million five-year issue with warrants has attracted substantial investor demand. However, investors will also be aware that bond markets have weakened again and that yields of 17 percent on triple-A rated bonds are now available across the yield curve.

Inherent Leverage

For example, the Citicorp warrants, an entitlement to buy a seven-year zero-coupon note to yield 14½ percent until August, 1982, can hardly be viewed as a bargain when other bonds return 17 percent. Because of their inherent leverage, warrants will thrive in a bull market. However, the current prices of most warrants are already assuming a major decline in bond yields, which is a reasonable assumption but not a certainty. As all the bonds with warrants outstanding at this time are exercisable into similar or identical bonds yielding less than the market average today, the warrants cannot have an intrinsic value. Their value is based instead on expectation, i.e., they are selling at a major premium to their actual worth. Any investment based on expected rather than underlying values carries an above average degree of risk.

Ian M. Kerr is an executive director of Kidder Peabody International Ltd.

Recent Eurobond Issues Outstanding With Warrants Which Have Expired

Issue Date	Issue	Duration of Warrant	Warrant Expiration Date	Intrinsic Value of Warrant Prior to Expiration
12.80	\$16 million Anixter Int'l. Fin. N.Y. 9½% convertible sub. gld. debentures due 15.1.90 with warrants to purchase at par a similar amount of debentures (convertible into shares of common stock)	8 months	8.81	NIL
16.12.80	\$50 million Credit National 13½% gld. bonds due 1.1.86 with warrants to purchase at par a similar amount of 13½% gld. bonds due 1.1.91. (Gld. Fr. France)	6 months	6.81	NIL
5.1.81	\$50 million G.T.E. Fin. N.Y. 13½% notes due 15.1.86 with warrants to purchase at par a similar amount of 16½% notes due 15.1.88	7 months	8.81	NIL
7.1.81	\$100 million Hydro Quebec 12.9% debentures due 1.2.91 with warrants to purchase at par a similar amount of 13% debentures due 1.2.91	8 months	9.81	NIL
16.1.81	\$12.5 million Anacomp Int'l. N.Y. 9½% convertible sub. debentures due 15.1.86 with warrants to purchase at par a similar amount of debentures (convertible into common stock)	8 months	9.81	NIL
6.2.81	\$250 million Citicorp Overseas Fin. Corp. Ltd. gld. floating rate notes due June 1984 with warrants to purchase at par 12½% gld. bonds due 23.91	7 months	9.81	NIL

* The definition of intrinsic value in the "Dow Jones-Irwin Guide" is that it represents "the current price of the common less the exercise price." In the case of bonds a warrant therefore has obvious intrinsic value.

	Current price of Bonds (com. warrants)	
17.3.81	\$55 million American Airlines Overseas Fin. N.Y. 15½% collateral trust bonds due 1.4.86 with warrants to purchase at par a similar amount of bonds due 1.4.88	9 months
28.7.81	\$100 million Citicorp Overseas Fin. Corp. N.Y. Gld. zero coupon notes due 18.8.84 with two warrants to purchase two zero coupon debentures due 18.8.88 (to yield 14½%)	12 months
4.8.81	\$7.5 million Transamerica Fin. Corp. N.Y. 7% notes due 3.9.86 with two warrants to purchase two zero coupon debentures due 3.9.88	13 months
8.81	\$7.5 million Wells Fargo Int'l. Fin. 15% bonds due 10.9.95 with two warrants to purchase two zero coupon bonds due 1988	12 months
14.8.81	\$100 million Continental Illinois Ocean Fin. Corp. N.Y. 14½% gld. notes due 7.9.84 with two warrants to purchase two gld. zero coupon bonds due 7.9.88	13 months
20.8.81	\$65 million Hiram Walker Int'l. Fin. 15% notes due 1984 with two warrants to purchase two zero coupon bonds due 1988	12 months
7.9.81	\$50 million G.T.E. Finance N.Y. 15½% notes due 15.9.85 with warrants to purchase at par a similar amount of 16½% notes due 15.9.88	12 months
17.10.81	\$100 million B.F.C.E. (gld. Fr. France) 16% bonds due 15.11.86 with two warrants to purchase at par two 16% notes due 15.11.86	12 months

10.82 99% (Issue Price 100%)

EUROMARKETS

Turbulence of '70s Breeds Investment Adviser of '80s

By Hans Rieppel

LONDON — The investment adviser of 1981 is a member of a totally new species. He will have survived some of the worst market conditions since the Great Depression. He will be more fit than his predecessors in dealing with new types of investments and with enormously volatile markets.

There is a very real necessity for this new animal to have genuine credentials. He must be able to advise on an enormous diversity of investment opportunities.

Prior to the floating of the dollar in 1971 and the Arab-Israel conflict in 1973, the international investment community had the advantage of a steady, if irregular, expansion of business and, by today's standards, near static interest rates. In those halcyon days, the gold price was fixed and energy costs were low and stable. The main stimuli to attract investment management were occasional bankruptcies.

The turbulence of the 1970s has produced the "multi-role" investment adviser. He differs greatly from the stockbroker or banker of previous years. Pressure is constant and competition is intense. The pressure is created by the necessity of analyzing developments in all markets, whether these be foreign exchange, bond, equity, commodity or other markets. The pressure is increased by the need to assess new types of investment such as financial futures, "granny" bonds and the like. Not only have markets become more volatile but structural changes in markets have become more rapid.

Unquestionably, the investment advisers with the most experience in managing international portfolios have been Swiss bankers. They acquired their expertise largely as the result of Switzerland's becoming a haven for money investment sources around the world.

Portfolio Managers

Generally, the Swiss portfolio manager's objective is to produce a higher return for his client than the client could obtain in his own market. Prior to the breakdown of the Bretton Woods system of fixed exchange rates, Swiss portfolio managers had to diversify their investments in different markets because Swiss interest rates were lower than those in other countries. After exchange rates were allowed to fluctuate widely, the task of the

portfolio manager was to identify which currencies had the greatest appreciation potential. This opened up opportunities in the domestic Swiss market but too often other considerations, such as the imposition of negative interest rates, precluded this possibility. Therefore, the Swiss manager had to look continually for opportunities in other markets.

As a result of circumstances peculiar to Switzerland, investment advisers in other countries did not gain as much experience in managing a diversified portfolio, with the possible exception of those in Scotland.

It is interesting to note that in the last 10 years, conservative portfolio management policies have

been the right policies. Those advisers who kept their client's portfolios liquid, who eschewed high interest rates in favor of a sound currency and who stuck to the view that a portfolio should have an element of gold in it, outperformed the more equity-minded and aggressive managers of money.

The problems confronting the portfolio manager in the 1980s will undoubtedly be somewhat different from those of the 1970s. For instance, it is conceivable, but not yet probable, that we are entering a decade of a declining rate of inflation that would favor investment in companies with expanding earnings, as opposed to those with undervalued real assets.

Whatever the case, the investment manager must be more adaptable than his predecessors. He must be prepared to examine opportunities in a larger number of markets. He must make use of different financial techniques and different financial instruments. Finally, he should remain conservative in his approach to investment and not be blinded by national investment prejudices.

Hans Rieppel is managing director of Sarasin International Securities Ltd. in London.

You can count on us

White our roots are firmly planted in the rich soil of the Arab world, we have developed sophisticated banking techniques which have allowed our growth throughout the international market.

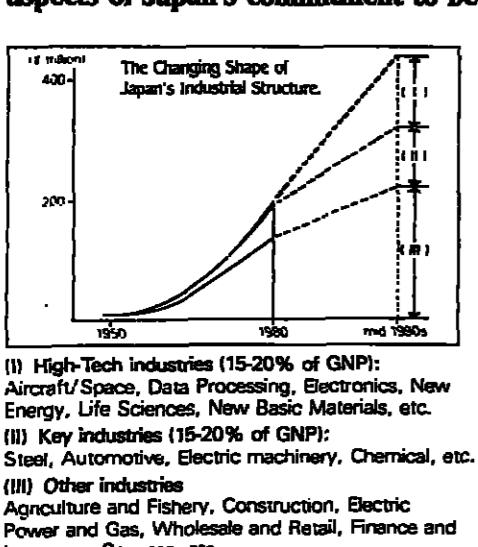
البنك العربي الأفريقي الدولي
arab african international bank
International connection in the Middle East



Join Telecom

Bright Outlook for Japan's High-Tech Industries.

The future belongs to technology. And nowhere is that more apparent than in Japan where high-tech corporations, with the full support of the country's strong and stable government, are currently entering a period of unprecedented growth. The following summarizes important aspects of Japan's commitment to becoming a "technology-based nation".



- Key areas of growth will be Electronics (office automation equipment, computer mainframes, microcomputers, semiconductors), Life Sciences (genetic engineering), New Basic Materials (transformation of metals, organic materials, ceramics), and New Energy (nuclear, solar, geothermal, etc.).
- Japan's Ministry of International Trade and Industry (MITI) is committed to raising to 4.0% the ratio of R&D expenditures to GNP by 1986-1990 — one of the highest ratios in the world.
- Specifically, MITI itself intends to appropriate Y100 to Y120 billion over the next decade for R&D on next-generation industrial technology.
- Japan's enterprises excel in adapting existing technology and converting new technology and new products into earnings in a short space of time. One example — Japan now supplies 70% of all industrial-use robots marketed in the world. And the future looks especially good for LSI's, VTR's, NC machine tools, antibiotics, and genetic engineering and related areas.

Consult Yamaichi Securities for highly responsive, accurate and discrete investment advisory and brokerage services. Yamaichi is Japan's oldest securities company. We're also one of the largest in the country with 6,400 employees and 90 domestic branches. Moreover, Yamaichi is backed by the Yamaichi Research Institute — one of Japan's foremost economic research bodies. For prompt information concerning investment opportunities in Japan, please contact Yamaichi International (Europe) Ltd., London. Be sure to ask for your free copy of Yamaichi's in-depth analysis of "Japan's High-Tech Industries."

Uncommon vision in international investment.

YAMAICHI

Yamaichi International (Europe) Limited

15th Floor, St. Alphege House, 2, Fore Street, London,



Molten steel pours into the continuous slab casting machine at an Inland Steel plant in Indiana.

U.S. Steelmakers Change Course

By Winston Williams
New York Times Service

CHICAGO — A few years ago, when supporters of free trade disagreed with steelmakers on the need for import restrictions, the steelmakers would make a blunt appeal to patriotism and say, "Don't you think America needs a steel industry?"

But by their recent actions, it seems that steel producers have answered their own question with a "Maybe."

U.S. producers are modernizing many of their facilities, but apparently they finally have accepted with resignation their diminishing importance in the steel industry.

The steel sector has shown its faith in the Reagan administration's more attractive tax, environmental and regulatory policies by announcing a series of investment projects valued at more than \$5.8 billion, a substantial sum by any measure. But with its bold, multi-billion-dollar bid for Marathon Oil, U.S. Steel Corp. has vividly illustrated the sector's ambivalence toward its basic business.

Other steel companies recently also have shown dissatisfaction with their long-term prospects.

Some have turned to other industries. Earlier this month, Kaiser Steel announced it would abandon 2.2 million tons of steelmaking capacity at its Fontana, Calif., plant. National Steel, forgoing expansion in

steel, decided instead to acquire two large savings and loan associations. LTV, corporate parent of Jones & Laughlin, made an unsuccessful bid for Grumman. And Arenco, a long a grand name in steelmaking, has diversified extensively and dropped the word "steel" from its corporate title.

These actions have upset supporters of "re-industrialization," who thought that the breaks in the new tax bill would permit the steel sector to modernize and expand, thus putting an end to more than a quarter century of decline. There exists a feeling of betrayal among many congressmen, government officials and labor leaders who vigorously backed steelmakers' demands for help.

"This confirms my fears about U.S. Steel, which I rank last in the industry in terms of their commitment to steel," Jack Parson, an official of the United Steelworkers union in Chicago, said of the Marathon bid. "It's going to be hard to take them seriously when they ask us for sacrifices." Union leaders are scheduled to open wage talks soon with the steel companies.

Others less involved also see a flight from steel. "With the cost of labor and capital being what it is here, there's no future in putting more money into steel," said David Healy, the steel specialist at the

(Continued on Page 19, Col. 1)

BUSINESS NEWS BRIEFS

Dome to Sell 3d Interest in Hudson's Bay

Reuters

CALGARY — Dome Petroleum said Tuesday that Transcanada PipeLines may purchase a 12.5 percent interest in Hudson's Bay Oil & Gas' Canadian oil and gas properties.

Dome said the purchase would be similar to that of Dome Canada and Maligne Resources, each of which have agreed to purchase a 12.5 percent interest in Hudson's Bay's Canadian oil and gas properties for a total of \$90 million Canadian dollars (\$750 million).

Dome Petroleum said the proceeds of these and other potential dispositions would aggregate about 1.4 billion dollars.

Hong Kong Firm Raises Bid for Host

Los Angeles Times Service

SANTA MONICA, Calif. — A Hong Kong-based retailer has emerged as the apparent victor in the bidding war for Santa Monica-based Host International by topping Marriott's \$139.2 million offer by \$1.2 million.

Host and Hong Kong-based DFS Group Monday signed a new merger agreement based on a bid of \$140.4 million, or \$29.25 for each of Host's 4.8 million outstanding shares.

The offer was larger than the \$116.4 million DFS bid that Host had accepted in October, and the \$139.2 million Marriott Corp. bid on Friday. Marriott said Tuesday it was disappointed that the Host board did not accept its offer and it is evaluating other possible alternatives with respect to Host.

NCC to Submit New Bid for Simplicity

Reuters

NEW YORK — NCC Energy of Britain said Tuesday it planned to make a new offer for a business combination with Simplicity Pattern within 90 days.

The company said in the meantime it may increase its holdings in Simplicity. A previous NCC and Simplicity combination was terminated Nov. 5 after Bayswater Realty and Capital made a tender offer for a total of \$90 million Canadian dollars (\$750 million).

Dome Petroleum said the proceeds of these and other potential dispositions would aggregate about 1.4 billion dollars.

Delors Says ECU, U.S. Aid Are Key To Calm Markets

AP-Dow Jones

VIENNA — The Organization of Petroleum Exporting Countries is developing a formula that would allow the price of oil to go both up and down in real terms in response to market forces and other factors.

Saudi Arabian Oil Minister Sheik Ahmed Zaki Yamani, who

disclosed a "flexible" pricing formula was being developed, was reluctant to give details. But OPEC president and Indonesian Oil Minister Subroto said such a formula could be put in place next year, or before the current price freeze by OPEC expires at the end of 1982.

Subroto said that the price formula was being developed by the long-term strategy committee, which has been meeting under the chairmanship of Sheik Yamani.

The Saudi minister confirmed that the previously proposed price formula, which was supposed to have a ratchet effect in moving prices only upwards, was abandoned because of recent experiences. The world oil market continues to be soft after being glutted for most of the year.

The previous formula had provided for periodic adjustment of oil prices automatically on the basis of exchange-rate changes, the rate of inflation and economic growth rates. The first two factors were supposed to preserve the real price of oil, and the last was to provide the ratchet effect, raising prices at a pace linked with growth.

On Tuesday, Sheik Yamani said: "The [previous] price formula is no more the formula that should be applied in the future. We think we have to be flexible. That means a formula that contains several factors." He added that these factors included a consideration of market forces. "I believe in market forces and we can't ignore them," he asserted.

The reasoning that underlies this radical change in OPEC thinking was outlined Tuesday by OPEC deputy secretary general Faadil al-Chalabi. In presenting various pricing options open to OPEC, he said one was "hydrocarbon prices at equilibrium level." In effect, he explained, OPEC would plan its share of the world oil market and adopt a pricing policy to support it. This would be instead of OPEC allowing its share to be determined by market forces in reaction to price changes.

Addressing a conference on the management of foreign exchange risks sponsored by the International Herald Tribune and Forex Research, Mr. Delors said France was neither opposed to a greater role for special drawing rights, nor against a new allocation of SDRs provided it was distributed among Third World countries.

Mr. Delors said that the economic policy of the new French Socialist administration was midway between excessive government control and a completely free market.

The company said the chemicals division also was depressed, partly on seasonal factors, while electricity generating yielded a slightly higher profit.

The spokesman said the holding will be considered a purely financial investment, but he said that he could not give details of the sum involved.

The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He said: "The plan, still being negotiated among the companies, would involve AEG holding 51 percent, and Bosch and Mannesmann 20 percent each.

He

NYSE Nationwide Trading Closing Prices Nov. 24

Tables include the nationwide prices up to the closing on Wall Street.

12 Month Stock	Low Div.	\$ Yld.	P/E	100s.	High	Low	Quot.	Clos.
44 AAP	.44	2.4	14	36	36	35	35	35
279 ACP	.76	2.11	32	32	32	31	31	31
129 ACP Int'l	.76	2.33	32	32	32	31	31	31
129 ACP Int'l	.76	2.33	32	32	32	31	31	31
36 ACP Int'l	.76	2.33	32	32	32	31	31	31
619 ACP USA	.76	2.11	32	32	32	31	31	31
117 ACPX	.28	2.2	12	12	12	11	11	11
37 ACPX	.28	2.2	12	12	12	11	11	11
176 ACPX	.14	2.2	12	12	12	11	11	11
124 ACPX	.14	2.2	12	12	12	11	11	11
78 ACPX	.28	2.2	12	12	12	11	11	11
479 ACPX	.28	2.2	12	12	12	11	11	11
432 ACPX	.28	2.2	12	12	12	11	11	11
20 ACPX	.28	2.2	12	12	12	11	11	11
145 ACPX	.28	2.2	12	12	12	11	11	11
25 ACPX	.28	2.2	12	12	12	11	11	11
24 ACPX	.28	2.2	12	12	12	11	11	11
22 ACPX	.28	2.2	12	12	12	11	11	11
17 ACPX	.28	2.2	12	12	12	11	11	11
16 ACPX	.28	2.2	12	12	12	11	11	11
15 ACPX	.28	2.2	12	12	12	11	11	11
14 ACPX	.28	2.2	12	12	12	11	11	11
13 ACPX	.28	2.2	12	12	12	11	11	11
12 ACPX	.28	2.2	12	12	12	11	11	11
11 ACPX	.28	2.2	12	12	12	11	11	11
10 ACPX	.28	2.2	12	12	12	11	11	11
9 ACPX	.28	2.2	12	12	12	11	11	11
8 ACPX	.28	2.2	12	12	12	11	11	11
7 ACPX	.28	2.2	12	12	12	11	11	11
6 ACPX	.28	2.2	12	12	12	11	11	11
5 ACPX	.28	2.2	12	12	12	11	11	11
4 ACPX	.28	2.2	12	12	12	11	11	11
3 ACPX	.28	2.2	12	12	12	11	11	11
2 ACPX	.28	2.2	12	12	12	11	11	11
1 ACPX	.28	2.2	12	12	12	11	11	11
477 ACPX	.28	2.2	12	12	12	11	11	11
316 ACPX	.28	2.2	12	12	12	11	11	11
136 ACPX	.28	2.2	12	12	12	11	11	11
125 ACPX	.28	2.2	12	12	12	11	11	11
124 ACPX	.28	2.2	12	12	12	11	11	11
123 ACPX	.28	2.2	12	12	12	11	11	11
122 ACPX	.28	2.2	12	12	12	11	11	11
121 ACPX	.28	2.2	12	12	12	11	11	11
120 ACPX	.28	2.2	12	12	12	11	11	11
119 ACPX	.28	2.2	12	12	12	11	11	11
118 ACPX	.28	2.2	12	12	12	11	11	11
117 ACPX	.28	2.2	12	12	12	11	11	11
116 ACPX	.28	2.2	12	12	12	11	11	11
115 ACPX	.28	2.2	12	12	12	11	11	11
114 ACPX	.28	2.2	12	12	12	11	11	11
113 ACPX	.28	2.2	12	12	12	11	11	11
112 ACPX	.28	2.2	12	12	12	11	11	11
111 ACPX	.28	2.2	12	12	12	11	11	11
110 ACPX	.28	2.2	12	12	12	11	11	11
109 ACPX	.28	2.2	12	12	12	11	11	11
108 ACPX	.28	2.2	12	12	12	11	11	11
107 ACPX	.28	2.2	12	12	12	11	11	11
106 ACPX	.28	2.2	12	12	12	11	11	11
105 ACPX	.28	2.2	12	12	12	11	11	11
104 ACPX	.28	2.2	12	12	12	11	11	11
103 ACPX	.28	2.2	12	12	12	11	11	11
102 ACPX	.28	2.2	12	12	12	11	11	11
101 ACPX	.28	2.2	12	12	12	11	11	11
100 ACPX	.28	2.2	12	12	12	11	11	11
99 ACPX	.28	2.2	12	12	12	11	11	11
98 ACPX	.28	2.2	12	12	12	11	11	11
97 ACPX	.28	2.2	12	12	12	11	11	11
96 ACPX	.28	2.2	12	12	12	11	11	11
95 ACPX	.28	2.2	12	12	12	11	11	11
94 ACPX	.28	2.2	12	12	12	11	11	11
93 ACPX	.28	2.2	12	12	12	11	11	11
92 ACPX	.28	2.2	12	12	12	11	11	11
91 ACPX	.28	2.2	12	12	12	11	11	11
90 ACPX	.28	2.2	12	12	12	11	11	11
89 ACPX	.28	2.2	12	12	12	11	11	11
88 ACPX	.28	2.2	12	12	12	11	11	11
87 ACPX	.28	2.2	12	12	12	11	11	11
86 ACPX	.28	2.2	12	12	12	11	11	11
85 ACPX	.28	2.2	12	12	12	11	11	11
84 ACPX	.28	2.2	12	12	12	11	11	11
83 ACPX	.28	2.2	12	12	12	11	11	11
82 ACPX	.28	2.2	12	12	12	11	11	11
81 ACPX	.28	2.2	12	12	12	11	11	11
80 ACPX	.28	2.2	12	12	12	11	11	11
79 ACPX	.28	2.2	12	12	12	11	11	11
78 ACPX	.28	2.2	12	12	12	11	11	11
77 ACPX	.28	2.2	12	12	12	11	11	11
76 ACPX	.28	2.2	12	12	12	11	11	11
75 ACPX	.28	2.2	12	12	12	11	11	11
74 ACPX	.28	2.2	12	12	12	11	11	11
73 ACPX	.28	2.2	12	12	12	11	11	11
72 ACPX	.28	2.2	12	12	12	11	11	11
71 ACPX	.28	2.2	12	12	12	11	11	11
70 ACPX	.28	2.2	12	12	12	11	11	11
69 ACPX	.28	2.2	12	12	12	11	11	11
68 ACPX	.28	2.2	12	12	12	11	11	11
67 ACPX	.28	2.2	12	12	12	11	11	11
66 ACPX	.28	2.2	12	12	12	11	11	11
65 ACPX	.28	2.2	12	12	12	11	11	11
64 ACPX	.28	2.2	12	12	12	11	11	11
63 ACPX	.28	2.2	12	12	12	11	11	11
62 ACPX	.28	2.2	12	12	12	11	11	11

Study Sees Chip Stock Bargains

By Robert Metz
New York Times Service

NEW YORK — The shares of semiconductor companies have dropped to their lowest levels in years and could be setting at bargain prices.

That, at least, is the theme of a major new report from Hambrecht & Quist, a San Francisco investment banking concern widely known for its sponsorship of high-technology companies.

The companies in question — Advanced Micro Devices, Intel, Motorola, National Semiconductor and Texas Instruments — are leading manufacturers of integrated circuits, the bedrock upon which the emerging computer era is based.

Sliding prices of semiconductors have helped increase the rate of computer installation in offices and factories. More recently, the integrated circuit has brought a boom in home computers.

But semiconductor prices have fallen too rapidly of late to support the high profits investors in semiconductor companies have come to expect. Hambrecht & Quist acknowledges this and is itself predicting that the earnings of the five companies will slip an average of 67 percent in 1981. That's an even greater setback for the industry than in the recession year of 1975, when earnings were down 62 percent.

This time shares have reacted so severely that Hambrecht & Quist believes they "represent very attractive investment opportunities."

Not everyone agrees. Thomas Kuriak of Merrill Lynch put out a cautionary report on semiconductor shares last week. In a telephone interview, he commented: "Our analysis indicates that there is a correlation between semiconductor company order bookings and share price. We are advising clients to defer new buying until the low in bookings occurs, probably in February."

John J. Lazlo Jr., the Hambrecht analyst who wrote the report, argues that share price performance over the next few months will be "no worse" than that of the market generally. "Looking out 12 months we anticipate superior relative and absolute price performance," he added.

Mr. Lazlo is recommending the shares of all

five companies. Discussing the companies, he said that 40 percent to 50 percent of Advanced Micro Device's revenues and a larger portion of its earnings are derived from proprietary products where it experiences little effective competition.

Mr. Lazlo expects the company to earn \$2.30 a share in the 1982 calendar year, up from an estimated \$1.50 a share in 1981 and about 55 cents a share in 1980. Its peak calendar year result was \$1.66 a share in 1980.

In the dominant factor in microprocessors, "is rapidly becoming a systems company, integrating its components in software into higher value-added products for its customers," he said.

Mr. Lazlo thinks this strategy will give Intel better control of its markets and help the company achieve profit margins approaching former levels. The company could earn \$3 a share in 1983, up from \$1.50 a share in 1982 and 75 cents a share in 1981. Intel's peak earnings were \$2.21 a share in 1980.

Motorola, he believes, has emerged as one of the strongest factors in the industry. Motorola also commands a dominant position in the land mobile radio market. In 1983, Motorola could earn \$10 a share, up from \$6 a share in 1982 and \$5.50 a share in 1981, he said. Motorola's peak was \$5.90 a share in 1980, he added.

National Semiconductor is a broad-line supplier of semiconductors and its "technology base is underpinned by the investment community generally," Mr. Lazlo said. "We expect a strong earnings recovery during the general industry rebound. We're looking for \$4 a share in calendar 1983, \$1 a share in calendar 1982 and \$1.10 a share in the current calendar year."

Texas Instruments, he said, is regrouping and preparing for a market onslaught in the 1980-86 period. Texas Instruments is entering such areas of high potential growth as speech synthesis and gate arrays, the gate arrays to be used to replace standard logic circuits with savings in both cost and development time. Texas Instruments may earn \$12.50 a share in 1983, he said. He expects \$6.50 a share in 1982 and \$4.15 a share in 1981.

Penn Central Withdraws Offer To Acquire Colt

The Associated Press

NEW YORK — Penn Central Tuesday called off its proposed \$1.1 billion acquisition of Colt Industries at the request of Colt, both companies announced.

While Colt shareholders had overwhelmingly approved the merger into a subsidiary of Penn Central last month, a dissident Penn Central shareholder group, which included members of the Hunt family of Texas, opposed the deal.

The announcement of the cancellation of the merger came as independent election judges were in the process of reviewing results of Penn Central shareholder balloting on the acquisition.

In a preliminary count, 10.2 million votes were cast against the merger, and 10.1 million votes were cast in favor of the takeover. But Penn Central said 396,630 votes were under review.

Dissident shareholders claimed Penn Central was paying too much for Colt. The Hunt group said Penn Central was also overpricing part of its more than \$2 billion in tax credits in the deal.

Richard Dicker, chairman of Penn Central, had maintained that the company would come out hundreds of millions of dollars ahead on the deal if it went through.

Asked why the transaction was called off, Mr. Dicker said Colt had a right to terminate the merger if the deal could not be completed by Dec. 31 and that because of the vote recount, that deadline was impossible to meet.

Foreign experts predict that even with some deficit financing among reserves next January's pre-election announcement of the 1982-83 draft budget could provide for growth of only about 12 to 15 percent — meaning a slowdown in massive development outlays and a tight rein on capital spending.

The director general of foreign monetary affairs, Soegito, told parliament last week the balance-of-payments deficit at the end of the 1981-82 fiscal year next March might reach \$796 million.

Gold and currency reserves still stand at \$7.2 billion, he said, but according to foreign experts these

huge oil-produced savings will

Oil Glut, Commodity Slump Hurts Indonesia

By Peter Griffiths

Reuters

JAKARTA — Indonesia, faced by stagnant prices for oil, coffee, rubber and timber, has announced it will probably face a balance-of-payments deficit this year.

The dip in the country's economy, the first balance-of-payments deficit in three years — has put a brake on President Suharto's ambitious budget last January that included a 32-percent increase in overall spending.

The budget called for expenditures of \$22.24 billion, predicted oil revenues of \$13.76 billion and reflected a prediction of vigorous growth in the non-oil sector.

Since then government planners, who anticipated a surplus in its balance of payments of \$2.8 billion, have had to readjust their plans because of stagnating oil sales and a slump in commodity prices.

Foreign experts predict that even with some deficit financing among reserves next January's pre-election announcement of the 1982-83 draft budget could provide for growth of only about 12 to 15 percent — meaning a slowdown in massive development outlays and a tight rein on capital spending.

The director general of foreign monetary affairs, Soegito, told parliament last week the balance-of-payments deficit at the end of the 1981-82 fiscal year next March might reach \$796 million.

Gold and currency reserves still stand at \$7.2 billion, he said, but according to foreign experts these

huge oil-produced savings will

cline quite steeply over the next three years.

Some recent projections say Indonesia's reserves (\$11 billion if net foreign assets of the five state banks are added) could be cut in half by 1984.

The growth in home fuel usage, helped by a \$2.3-billion government subsidy, keeps the cost of regular gasoline at 58 cents a gallon (about 13 cents a liter) and means less oil for export.

Finance Minister Ali Wardhana told the parliamentary budget commission last weekend that "the easy and comfortable years when Indonesia was floating on oil" are over.

He told the commission, which

is studying plans for the election year budget, the nation would have to tighten its belt in the next fiscal year and government bodies should submit expenditure estimates with increases not exceeding five percent in real terms, or about 14 percent taking into account inflation.

Exports Outlook

Subsidies, which this year cost a total of \$3.3 billion for all items including fuel and fertilizer, would be curtailed, the minister hinted, since they constituted a heavy financial burden exceeding the government's total wages and pensions bill of \$2.7 billion.

Government estimates show a

net drop in crude exports by value for this fiscal year to almost 10 percent below budget.

Moreover officials believe crude prices will not rise in 1982 from their \$34-a-barrel level and may even be forced down slightly.

Further, the contribution of liquefied natural gas is not expected to rise from the level of 8 percent of the value of total exports until late 1984 when the completion of the first of a series of big LNG trains could mean a takeoff in gas earnings.

Even more serious than the oil price stagnation has been the unpredicted slump in non-energy exports, which will earn about 30 percent less this year than was projected in the January budget.

Coffee prices have fallen by half since 1980 and Indonesia's export quota was recently cut 28 percent by the International Coffee Organization.

ADVERTISEMENT

AMERICAN EXPRESS COMPANY (CDR's)

The undersigned announces that as from 3rd December, 1981 at Kas-Asociatie N.V., Spuistraat 172, Amsterdam, divulgues 14 of the CDR's American Express Company, each rep. 5 shares, will be paid off with Dfls. 5.200 (div. 100) and receive a 15% USA-tax (= \$ 5.50 each) off deduction. 10.9.1981 with Dfls. 5.200 (div. 100) and receive a 15% USA-tax (= \$ 5.750 = Dfls. .92 per CDR).

Div. c.p. belongs to non-residents of The Netherlands will be paid after deduction of an additional 15% USA-tax (= \$ 4.750 = Dfls. .82 per CDR).

AMSTERDAM DEPOSITORY COMPANY N.V.

Amsterdam, 16th November, 1981.

NOTICE TO HOLDERS OF

MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

(Matsushita Denki Sangyo Kabushiki Kaisha)

6% CONVERTIBLE DEBENTURES DUE NOVEMBER 29, 1990

Pursuant to Section 3.04(d) of this Circular, the undersigned, which as from 20. 1975 under which the above Debentures were issued, notice is hereby given as follows:

1. Pursuant to the resolutions of the Board of Directors of the Company adopted at the meeting held on October 22, 1981, a free distribution of shares was effected on November 21, 1981 to shareholders of record as of November 20, 1981, of 1 new share for each 10 shares held.

2. Accordingly, the conversion price of the Debentures has been adjusted effective on November 21, 1981. The conversion price prior to such adjustment was Yen 454.50 per share of Common Stock and the adjusted conversion price is Yen 449.90 per share of Common Stock.

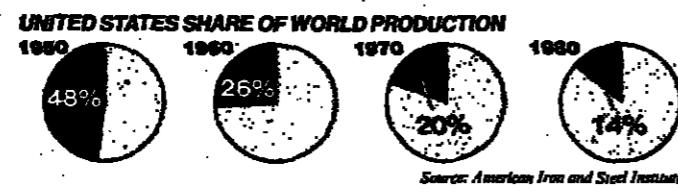
MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

By: The Bank of Tokyo Trust Company as Trustee

November 25, 1981.

U.S. Steelmakers See Diversity as Shelter in New World

(Continued from Page 17)



United States long ago became accustomed to the new competition, they now seem to have also accepted the fact that there will be no return to their former grandeur.

"We have no plans for a major expansion," said Thomas Graham, chairman of Jones & Laughlin. "What we need is an international pause in adding steelmaking capacity. There's too much capacity in the free world."

Appeals to patriotism have declined as dozens of plants have closed, thousands of workers have been laid off and diversification has increased.

The capital projects currently under way are all aimed at making existing plants more efficient.

Continuous caster, which save

labor and energy by eliminating an intermediate stage of production, are high on the priority lists. So are coke ovens, which produce relatively cheap energy. And some companies are adding capacity to make semifinished steel into pipe used in oil drilling, one of the few strong markets.

But the modernization projects announced thus far will not be enough to make U.S. steelmakers fully competitive. At least 15 percent of capacity is in dirty, ancient open-hearth furnaces, and just 20 percent flows through the efficient continuous casters. Still, the need for more modernization has not been a strong deterrent to diversification.

These uncertainties, despite the favorable effects of the tax law

changes, has made steel companies reluctant to commit capital to massive steel projects. "We've got to have a second tax bill that reduces the corporate tax rate," David Rodriguez, the chairman of U.S. Steel, said shortly after the bill was passed last summer.

New machinery and the added attention paid to efficiency has paid off this year, however. Profits rose sharply in the third quarter, increasing almost fivefold at U.S. Steel, for example, to \$36.9 million. In the first nine months, according to the American Iron and Steel Institute, steel profits overall increased about 143 percent, to \$2.43 billion.

But steelmakers remain dissatisfied, saying return on equity still lags far behind other sectors. For example last year, when the industry earned \$1.6 billion, its return on equity was 9 percent, compared to about 15 percent for all manufacturing. And the outlook for the rest of this year and the first half of 1982 is very poor, the steel companies say.

But steelmakers remain dissatisfied, saying return on equity still lags far behind other sectors. For example last year, when the industry earned \$1.6 billion, its return on equity was 9 percent, compared to about 15 percent for all manufacturing. And the outlook for the rest of this year and the first half of 1982 is very poor, the steel companies say.

These uncertainties, despite the favorable effects of the tax law

changes, has made steel companies reluctant to commit capital to massive steel projects. "We've got to have a second tax bill that reduces the corporate tax rate," David Rodriguez, the chairman of U.S. Steel, said shortly after the bill was passed last summer.

New machinery and the added attention paid to efficiency has paid off this year, however. Profits rose sharply in the third quarter, increasing almost fivefold at U.S. Steel, for example, to \$36.9 million. In the first nine months, according to the American Iron and Steel Institute, steel profits overall increased about 143 percent, to \$2.43 billion.

But steelmakers remain dissatisfied, saying return on equity still lags far behind other sectors. For example last year, when the industry earned \$1.6 billion, its return on equity was 9 percent, compared to about 15 percent for all manufacturing. And the outlook for the rest of this year and the first half of 1982 is very poor, the steel companies say.

These uncertainties, despite the favorable effects of the tax law

COMPANY REPORTS

Revenue and profits, in millions, are in local currencies unless otherwise indicated

United States

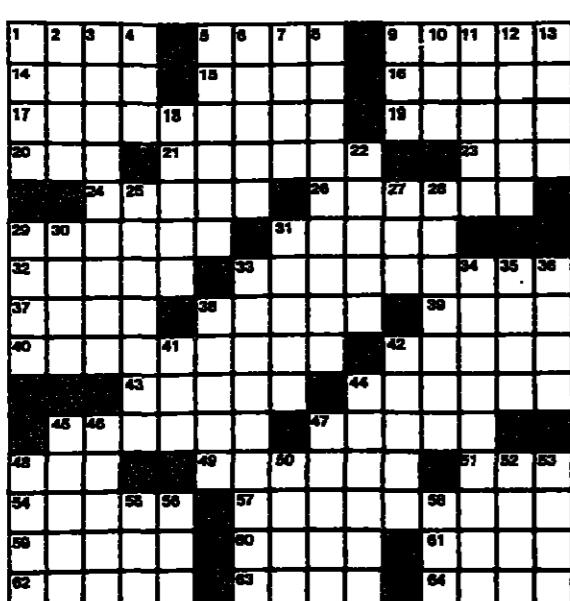
	Supermarkets General	1981	1980
3rd Quar.	752.4	653.0	
Revenue	823	723	
Per Share	0.25	0.24	
1981	1980		
Revenue	2,201	1,710	
Profits	15.91	16.74	
Per Share	1.39	2.02	

West Germany

	Veba	1981	1980
9 months	Revenue	36,700	30,400
	Profits	214.0	266.0

CROSSWORD

By Eugene T. Maleska



ACROSS

- 1 May Whitty, e.g.
- 5 MacDonald's milieu
- 9 Where Gov. Atiyeh works
- 14 Jacques' septet
- 15 Common code
- 16 Put
- 17 Thyme, e.g.
- 18 Location of a desirable theater seat
- 20 Word with peck or party
- 21 Hebrews — law
- 22 Dine
- 24 Glow
- 26 Hidden
- 29 Sacred songs
- 31 Shakespeare's misanthropic Athenian
- 32 Products of cerebration
- 33 Lee
- 34 Strasberg's field
- 37 Part of h.c.l.
- 38 Sierra
- 39 Regarding
- 40 Objects made by humans
- 42 One involved in 33 Across
- 43 Boys, in Barcelona
- 44 Lottery, for short
- 10 MacGraw

DOWN

- 45 Poniard
- 47 Burns
- 48 Movie location
- 49 Cup's partner
- 51 "Autumn," 1941 song
- 54 Long-legged bird
- 57 RCA Victor's "His Master's Voice," e.g.
- 59 Tuteary Roman deities
- 60 The Big Bad Wolf, e.g.
- 61 Zeta's milieu
- 62 Ragamuffin's delight
- 63 Walter or Donna
- 64 Posted

P

E
A
N
U
T
S

WE'RE GOING TO MY GRAMMA'S TOMORROW FOR THANKSGIVING...

PUMPKIN PIE! SWEET POTATOES! EVERYTHING!

THE BEST PART, OF COURSE, IS WHEN THEY CARVE THE BIRD!

bark! bark! bark!

B.
C.

OK, TURKEY, I'LL GIVE YOU ONE LAST REQUEST

I'D LIKE TO BE STUFFED WITH CHINESE MUSTARD

B.
L
O
N
D
I
E

GOODBYE HONEY

OH, MY GOODNESS! HE WENT THE WRONG WAY! IT'S 22 — IT'S FAULT

B.
E
T
T
E

TURN AROUND, HONEY—YOUR BUS STOP IS THE OTHER WAY

IT WAS MY FAULT—I FORGOT TO POINT HIM THIS MORNING

A.
N
D
Y

YOU SAID YOU WOULDN'T BE LATE! COME FOR TEA!

I WALKED HOME INSTEAD OF CATCHIN' THE BUS—ANY COMMENT?

C.
A
P
P
E
R
E
X
M
O
R
G
A
N

YES! WE COULD LIVE QUITE WELL IF YOU WERE ALWAYS AS ECONOMIC AS YOU ARE AFTER A DAY AT THE BETTIN SHOP!

NOT BAD, PET, NOT BAD

ADVERTISEMENT
INTERNATIONAL FUNDS

November 24 1981

The net asset value quotations shown below are supplied by the Funds listed with the exception of some funds whose quotes are based on issues or price of the last day of the month. (m) monthly; (w) weekly; (d) daily.

ALLIANZ INT'L (m) of Bermuda \$1.323 (d) 1.323

BANK JULIUS BAER & Co Ltd SF 600.55

B.C. Fund SF 740.00

B.C. Fund SF 931.00

BANK VON ERNST & Cie AG Bern SF 17.22

(d) ICS Fund SF 10.20

BRITANNIA, PO Box 271, St. Heller, Jersey SF 1.74

(w) United Green Fund SF 1.74

(w) Convertible Bond Fund SF 2.22

CAPITAL INTERNATIONAL SF 26.44

CREDIT SWISS SF 26.73

C.G. Fund SF 2.53

C.G. Fund SF 2.53

C.G. Fund SF 2.53

DIT INVESTMENT FRANKFURT SF 17.17

FIDELITY PO Box 474, Hamilton, Bermuda SF 44.55

(m) American Values Common SF 1.25

(w) Fidelity Amer. Ass'n Fund SF 2.75

(d) Fidelity Div. Fund SF 2.50

(w) Fidelity Inv. Fund SF 2.69

(w) Fidelity Inv. Fund SF 2.73

(w) Fidelity World Fund SF 2.73

G.T. MANAGEMENT (UK) LTD SF 2.76

G.T. Bond Fund SF 2.11

G.T. Bond Fund SF 2.11

G.T. Investment Fund SF 16.84

G.T. Technology Fund SF 27.39

INTERNATIONAL INCOME FUND SF 22.77

20-34 Hill St, St. Heller, Jersey SF 22.77

(d) Short Term 'A' (Distr.) SF 1.04

(d) Short Term 'B' (Distr.) SF 1.05

(w) Short Term Inv. Fund SF 2.78

(

5 Convicted in Point-Fixing Conspiracy

From Agency Dispatches

NEW YORK — A federal jury has found former Boston College basketball player Rick Kuhn and four others guilty of conspiring to have points and fix basketball games during the 1978-79 season. A jury of eight women and four men reached its verdict late Monday after three days of deliberation in the trial's fifth week. Said U.S. District Judge Henry Brainwell: "I agree with your verdict." He set aside 8 for sentencing.

The defendants face maximum all terms of 20 years and fines of \$45,000 each. Defense attorneys said they would appeal.

Convicted with Kuhn were brothers Anthony and Rocco Perla, Paul Mazza and James Burke. All were found guilty of racketeering, conspiracy, conspiracy to commit sports bribery and violation of the Travel Act, i.e., using interstate facilities to perpetrate crime.

A three-count indictment against the defendants had been returned July 29.

Burke and Mazza are currently serving time in federal prisons. Burke for parole violation stemming from an extortion conviction.

and Mazza for narcotics trafficking.

The government centered its case on six Boston College games of 1978-79. Testimony maintained that Kuhn and several unidentified players were paid \$2,500 per game to shave points and "dump" games so BC would not beat the bookmakers' betting point spread. Kuhn also was given cocaine and Quaaludes.

Key Witness

Crucial to the prosecution's case was witness Henry Hill, a barker who later told authorities what he knew in exchange for immunity from prosecution on drug charges.

Hill detailed the scheme from July 1978, when his friend Mazza proposed the idea, to Patsburgh bookmaker, Anthony Perla, and his younger brother, Rocco, had been "prepping" Kuhn, a high school friend of Rocco Perla.

The Pittsburgh men sought Hill's help because they needed protection from any retaliation by angry bookmakers and because they wanted to establish a network to farm out bets to increase their profits — something they felt Burke could do in New York.

Legal Issue

Under the law, however, success or failure of the scheme was immaterial; the legal issue was whether the defendants had conspired to

rig games by controlling their scores.

According to testimony, the syndicate always bet against Boston College. The games and the results:

• Dec. 6, 1978: Against Providence College, BC was favored to win by 6 points. For the syndicate that had to be beaten and to win its bets on Providence, the Eagles had to win by fewer than 6, or to lose. But BC won by 19 (83-64).

• Dec. 16: BC was a 12-point favorite over Harvard. The Eagles won by only 3 (86-83). The syndicate won.

• Dec. 23: BC was the underdog to UCLA by 13; the Eagles lost by 22 (103-81) and the syndicate won.

• Feb. 3, 1979: BC was a 13-point favorite over Fordham. The Eagles won by only 7 (71-64) and the syndicate won.

• Feb. 6: St. John's was a 9-point favorite; BC lost by 9 (85-76), resulting in a "push" — bettors on both sides of the line neither won nor lost.

• Feb. 10: Holy Cross was a 7-point favorite, but BC by only 2 (98-96). The syndicate lost.

defraud to recruit other players, including co-captain Ernie Cobb, the team's high scorer, and Joe Beaupain. Co-captain Jim Sweeney cooperated with the government, testifying that he pretended to go along because he was scared. Beaupain testified that he refused to take part. Only Kuhn was charged.

Hill said he, Burke and others bet as much as \$30,000 on some games. The "fix" did not always work: three times bettors won, twice they lost and once they tied.

Richard Todd

Another Kid From Alabama Takes Over New York, New York

By Steve Hershey

Washington Post Service

NEW YORK — This often cynical, cold-hearted city has gone wacko again over a National Football League quarterback from Alabama.

It was his courageous performance Sunday that finally earned him the respect of even his most constant critics.

Playing with a plastic-support cast around his torso and a flak jacket to protect a broken rib, Todd took his team 77 yards in the final three minutes for the winning touchdown. His 11-yard pass to Jerome Barkum with 16 seconds left nipped Miami, 16-15, in what some are calling the most important football game played here in a decade.

Todd's ribs were so sore that he couldn't speak above a whisper last Tuesday.

To make sure his teammates could hear his signals, he had a tiny microphone attached to his face mask and an amplified speaker hooked to his shoulder pads.

"I tried it before the game and it worked fine, but I still didn't want to use it unless I had to," he said. "I never did use it in the game."

It turned out that a freak injury to his left ankle — when center Joe Fields backed up and stepped on it — caused Todd more problems than his ribs.

He admitted afterward that he couldn't set up properly to pass to his left and was limited in his range.

"We tried to use plays where Richard would set up quicker," explained Joe Walton, the offensive coordinator. "We didn't want him to make too many deep drops where he would have more chance of getting sacked."

It is a strange twosome, Todd and Walton. Both were much maligned last season, but once they joined forces, Todd improved remarkably.

"I wasn't satisfied with Richard at the beginning of the season," Walton said, alluding to the team's 0-3 start. "I knew he could do a lot better."

"I feel that he's proven that now. He's learned so much, to read

defenses and to go to the right receivers."

"He's more relaxed, he has more confidence. But that comes from knowing what to do in certain situations and knowing comes from hard work. Richard has improved, but he can get even better."

A Year's Difference

This season Todd has completed 206 of 356 passes for 2,396 yards and 19 touchdowns — with only 8 interceptions. He ranks fourth in the AFC.

Last year he hit on 55 percent of his attempts (264 of 479), but had 30 interceptions.

"What some people lost sight of is that it often takes a long time for a quarterback to make it in the NFL," said Coach Walt Michaels.

"They expect a quarterback to come out of college and step in as a winner, and it just doesn't happen."

New Yorkers, of course, were impatient. Touted as another Namath, "Joe was my idol and I never wanted to be compared to him," Todd has said many times.

— he struggled during his formative years and once lost his job to newcomer Matt Robinson.

By 1979, he was booted regularly at Shea Stadium and once reacted by making an obscene gesture at the fans. He admits he was bitter and unhappy at times, particularly when the losses mounted.

"I feel a lot more comfortable here now than I used to," he said. "But that's because we're winning."

With last-place Baltimore coming to town Sunday, the Jets will have an excellent chance to continue its winning ways, if Todd can play.

Richard Todd has won his way into the hearts of New Yorkers: "they should all love him," said tackle Marvin Powell, who has watched the up-and-down saga of his quarterback for five seasons.

"Richard Todd is a leader. He never lets on he was in pain. We knew he was hurt all week, but as soon as we found out he was going to start, it got everybody jacked up."

To make sure his teammates could hear his signals, he had a tiny microphone attached to his face mask and an amplified speaker hooked to his shoulder pads.

"I tried it before the game and it worked fine, but I still didn't want to use it unless I had to," he said. "I never did use it in the game."

It turned out that a freak injury to his left ankle — when center Joe Fields backed up and stepped on it — caused Todd more problems than his ribs.

He admitted afterward that he couldn't set up properly to pass to his left and was limited in his range.

"We tried to use plays where Richard would set up quicker," explained Joe Walton, the offensive coordinator. "We didn't want him to make too many deep drops where he would have more chance of getting sacked."

It is a strange twosome, Todd and Walton. Both were much maligned last season, but once they joined forces, Todd improved remarkably.

"I wasn't satisfied with Richard at the beginning of the season," Walton said, alluding to the team's 0-3 start. "I knew he could do a lot better."

"I feel that he's proven that now. He's learned so much, to read

Richard Todd
... It got everybody jacked up.

Soviet Women Take World Gymnastics Lead

United Press International

MOSCOW — The Soviet Union, beaten only twice since 1954, Tuesday emerged in strong position to capture the women's team title and retain the individual all-around trophy with a sharp display in the compulsory program at the

College Football Polls

The Associated Press

NEW YORK — The top 20 teams in the Associated Press' annual poll, with first-place votes and totals in parentheses: season's record and totals:

1. Pittsburg (19-0) 10-0, 12-0
2. Penn State (18-1) 11-0, 11-0
3. Georgia 9-1, 11-0
4. Alabama 8-1, 12-0
5. Minnesota 8-0, 12-0
6. Michigan 8-1, 12-0
7. Texas 8-1, 11-0
8. Cal 8-0, 11-0
9. Ohio St. 8-0, 11-0
10. Michigan 8-0, 11-0
11. Penn St. 7-3, 11-1
12. Georgia 7-3, 11-1
13. Florida 7-2, 11-1
14. Washington St. 7-2, 11-1
15. Florida 7-1, 11-1
16. Michigan 7-1, 11-1
17. Penn St. 7-1, 11-1
18. Penn St. 7-1, 11-1
19. Penn St. 7-1, 11-1
20. Penn St. 7-1, 11-1

Richard Todd

United Press International

21. World Gymnastics Championships

The Russians surged to the top of the team standings with 194.40 points. China was second with 192.67. East Germany, spearheaded by European champion Maxi Gnauck, was third (190.25) and defending champion Romania fourth (189.90).

The Romanians, competing without Nadia Comaneci and world champion bronze medalist Melita Ruhn, were barely ahead of the U.S. team's 189.00.

The Russians filled three of the top four places in the combined individual standings, where the top 36 qualify for the finals after the team competition ends Thursday.

Natalia Ilenko outshone Olympic champion Elena Davydova to lead the field with 39.05 against her teammate's 39.00. Ilenko tallied 9.65 for the vault, 9.80 on the asymmetric bar, 9.70 for the beam and 9.90 for the floor exercise compared to Davydova's 9.70, 9.90, 9.90, 9.90.

But Davydova's flair in the free program makes her the most likely successor to retired compatriot Nelli Kim as world champion.

Gnauck, tied for second with Comaneci behind Davydova in the 1980 Olympics, is also in contention, holding third with 38.95, ahead of the Soviet Union's Olga Bicherova (38.90). Gnauck has been in a more challenging position but for a poor performance.

22-Half Comeback Defeats Vikings For Falcons, 31-30

The Associated Press

ATLANTA — Quarterback Steve Bartkowski threw two third-quarter touchdown passes and Buddy Curry capped a comeback with a 35-yard interception return for another score in the final period as the Atlanta Falcons downed the Minnesota Vikings, 31-30, in a National Football League game here Monday night.

Bartkowski's return gave the Falcons a 31-21 lead, but just after Atlanta gave up an intentional safety, Vikings' quarterback Tommy Kramer completed his fourth TD pass of the game, a 16-yarder to Joe Robbie with 1:07 left, to narrow Atlanta's margin to one point. The Falcons recovered the ensuing onside kick, however, and ran out the clock.

Trailing 21-7 at halftime, Atlanta got back in the game when Bartkowski hit Junior Miller and Wallace Francis with scoring passes early in the third period; during that quarter, a swarming defense held Minnesota to 15 yards.

A 32-yard fourth-period field goal by Mick Lynchhurst put Atlanta ahead to stay and Curry came through with his first interception of the year for the clinching score with 4:06 left to play.

Bartkowski's flair in the free program makes her the most likely successor to retired compatriot Nelli Kim as world champion.

Gnauck, tied for second with Comaneci behind Davydova in the 1980 Olympics, is also in contention, holding third with 38.95, ahead of the Soviet Union's Olga Bicherova (38.90). Gnauck has been in a more challenging position but for a poor performance.

NHL Standings

AMERICAN CONFERENCE Eastern Division

W L T PF PA PG

NY Islanders 12 4 2 97 104 100

Philadelphia 12 4 2 97 104 100

NY Rangers 12 4 2 97 104 100

Boston 12 4 2 97 104 100

Montreal 12 4 2 97 104 100

Observer

A Big, Happy Family

By Russell Baker

NEW YORK — The thing about our family is — well, it's a happy family, and as Tolstoy said, happy families are all alike. So I guess what I'm saying is that our family is just like your family. Provided your family is happy too, and why shouldn't it be?

Of course in our family, like all families, we have our little problems. Cousin Al Haig, for example, down there in Foggy Bottom — he's got a little problem. Somebody up here at the big house has been poisoning his well.

Baker

you feel even better. Not long ago King Khaled sent a fellow over from Maine and I noticed him mopping around the big house looking as miserable as a horse with a scorpion under the saddle.

How to cheer him up? I got Cousin Al, Cousin Cap and Cousin Dick Allen all together and we practiced harmony singing until we got it right. Then late one night we stood on the lawn where our Arab friend couldn't help but hear and sang, "At night when you're asleep, into your tent we'll creep — and leave some AWACS!"

* * *

One day when I'm headed out to the vegetable patch, Cousin Don Regan runs out of the country house waving a newspaper. "Where you going, Pap?"

"Going down to see if the ketchup plants are coming up yet."

"Look at what young Dave's saying about you," says Don.

"Young Dave's a smart boy. Cousin Don. One of these days he's going to be somebody when he learns to talk happy." The thought of young Dave talking his way happily to the top of the heap made me feel so good I asked Cousin Don to join me in singing "Happy Talk," but it had been so long since he'd seen "South Pacific" that he forgot the words, so I settled for scanning his newspaper. "This is terrible," I said.

"Sure is. He says you've been talking through your hat for the last six months."

"That's not the terrible thing. The terrible thing is, young Dave isn't as happy as he ought to be." So I called the boy up to the big house. Never saw a boy so down in the mouth. "I know I did wrong and deserve a thrashing, Pap," he says.

"Young Dave," says I, "I couldn't do that. It would make you unhappy, and making you unhappy would make me unhappy. I want to be happy, and I want you to be happy too. Won't you join me in song?"

His eyes were misty, but he put his arm around my shoulder and joined me in singing, "I Want To Be Happy."

While we were singing I heard some rowdies out in the meadow bawling, "Happy Days Are Here Again."

"Just Democrats," I told Dave. "It's nice to know you can even make a Democrat happy."

Keeping friends happy makes

New York Times Service

* * *

One night I'm sitting around with Cousin Cap Weinberg, humming "It's ever so humble, there's no place like the Pentagon," when I notice Cousin Cap scowling.

"Cousin Al doesn't think it's so humble," says Cap. "He's down there right now squatting on the south forty like it's his own private acreage."

The south forty is where we grow the thermocline policy. It seems Cousin Al has been saying we might blow off a demonstration bomb, and Uncle Cap had to call the newspaper and say Cousin Al is full of horse feathers.

Naturally I want to smooth things out between them as this kind of dispute can lead to unhappiness. So I phone the editor and tell him Cousin Al is right enough about the bomb demonstration but Cousin Cap is also right about Cousin Al being wrong.

Afterward I put Cap on the phone and make him sing "Happiness Is Just A Guy Named Cap."

Keeping friends happy makes

New York Times Service

MOVING

MOVING

AUTOMOBILES, REMOVALS, BAGGAGE. Special rates by air to U.S.A., Canada, & other destinations. Transcar, Paris 500 0304.

AMERICA CALLING

DAM 6239. Travelers' messages. Write Box 5262, Olympia, WA 98502 USA.

ANNOUNCEMENTS

HERTZ RENT-A-CAR SPECIAL WEEKEND RATES

Unlimited mileage from Friday 3 p.m. to Monday 3 p.m. \$100.00. Renault 5 GL - F 200. Peugeot 305 - F 230. Renault 5 - F 450. Peugeot 604 - F 550. Renault 5 automatic - F 600. including VAT. Tel. 01 43 62 8801 or 01 43 62 0574. Worldwide service.

DIVORCE IN 24 HOURS

Many uncontested actions, low cost. H.R. & D. Divorce. Tel. 01 43 62 8801 or 01 43 62 0574. Worldwide service.

IN ASIA AND PACIFIC

Contact our local distributor or: International Herald Tribune

1801 Tel. San Francisco Commercial Building 24-24 Hennery Road HONG KONG Tel: HK 5-284726

PORTUGAL SEE Holidays and Travel

WE CAN MOVE

YOU

ANYTIME

INTERDEAN

The

International

Mover

AMSTERDAM: 64 52 44

ATHENS: 894 76 11

BARCELONA: 65 21 31

BOLOGNA: 65 09 57

BRUSSELS: 32 00 40

CAZAS: 64 31 44

CHICAGO: 509 76 64

DUBLIN: 01 69 00 001

GENEVA: 601 10 00

THE HAGUE: 601 10 00

HOUSTON: 409 95 83

LONDON: 01 52 51 11

LONG BEACH: 509 55 11

MADRID: 67 1 20 57

MANCHESTER: 73 30 36

NAPLES: 73 30 36

NEW YORK: 490 74 44

PARIS: 74 82 51

PORTSMOUTH: 407 25 00

VIENNA: 82 43 44

ZURICH: 343 20 00

BEING INTERNATIONAL MOVES

since 1853. At: Room 624 91 60 Paris.

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *

* * *